

***United States Court of Appeals  
for the Second Circuit***



**EXHIBITS**



# 74-1289

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p. 75

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## UNITED STATES COURT OF APPEALS

*for the*

### SECOND CIRCUIT

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FRANK J. CRIMMINS,

Plaintiff-Appellant,

-against-

AMERICAN STOCK EXCHANGE, INC.,

Defendant-Appellee.

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ON APPEAL FROM THE UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF NEW YORK

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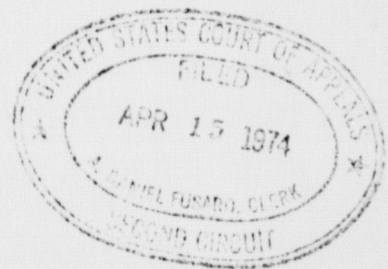
EXHIBIT TO APPENDIX  
EXTRACTS OF TRANSCRIPT OF HEARING BEFORE EXCHANGE PANEL

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Lord. Clay - Ford  
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BEFORE THE  
AMERICAN STOCK EXCHANGE

9

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In the Matter of the :  
Disciplinary Hearing :  
of :  
FRANK J. CRIMMENS :

----- X

36 Trinity Place  
New York, New York

July 9, 1973  
10:00 a. m.

P E E O R E:

- THOMAS W. RAE, Chairman
- MARTIN H. BERMAN, Member
- THOMAS SOUR, Member
- GEORGE H. HOWARD, JR., Member
- ROBERT HILL, Member

Disciplinary Panel

For the Exchange:

BURTON KNAPP, ESQ.  
600 Madison Avenue  
New York, New York

PHILIP J. AXELROD  
Sr. Compliance Attorney  
Legal & Compliance Division  
American Stock Exchange

For Frank J. Grimmins:

SPEAR & HILL, ESQS.  
63 Wall Street  
New York, New York  
By: THOMAS W. HILL, JR., ESQ.  
-and-  
DONALD STUART BAB, ESQ.  
-and-  
SEYMOUR SWIDLER, ESQ.

- - - -

PRESENT:

BENJAMIN D. KRAUSE,  
Assistant Vice President,  
Membership Services Division,  
American Stock Exchange.

1  
2 3 in the specification of charges, the alleged violation  
3 of Regulation T.

4 Do you find in the report in the position in  
5 March anything with respect to Regulation T with respect  
6 to margins or charges against Mr. Crimmins?

7 A I don't have a specific recollection of having  
8 noted that in the report, but I couldn't answer your  
9 question yes or no without going through this report.

10 Q There is a section entitled possible violations  
11 in the report. Would you look at that briefly and let  
12 us know whether there is any assertion of a possible vio-  
13 lation of Regulation T in the report. I think those are  
14 pages 71 through 76.

15 A I have glanced at them hurriedly and I don't see  
16 anything in the possible violations contained on those  
17 pages 71 to 76 of the Report of Investigation that is  
18 specifically referring to Regulation T.

19 Q Do you know whether or not Mr. Crimmins was  
20 given the opportunity, which you say is normal procedure,  
21 to respond to a possible violation of Regulation T?

22 A Not having been on the staff of the Exchange  
23 at that time, and not having participated in any way  
24 in this investigation, I am unable to answer the question.

25 Q On the same basis are you able to tell whether

PAUL FROMM, C.S.R. - STRIKE REPORTER -- GAO 7-6932

tion, which is an all-inclusive list of documents and other materials which were inspected -- if Mr. Crimmins and his counsel feel that these should be produced by the Exchange to support Mr. Crimmins' defense, upon notice I will be delighted to produce them.

With that, I think I can resolve very briefly for the panel one issue raised by Mr. Hill in which there seemed to have been some question raised, which is the mathematics involved in the report to the extent there are summaries of trading volume, trading by the Walston firm, participation by Mr. Crimmins in Four Seasons stock during the period embraced by the report and charges which essentially is November 1968 to April 1970.

So to resolve all questions on mathematics on the trading, the Exchange is prepared to accept the figures submitted by Walston and Mr. Crimmins, and for the record they are as follows:

The summary of the total Exchange volume as reported in the daily detail reports by the Stock Exchange --

MR. BAB: Mr. Rae, I don't like to interrupt Mr. Knapp. Are we getting testimony now from Mr. Knapp?

PAUL FROMMA, C.S.R. -- STENOGRAPHIC REPORTER -- BARCLAY 7-6982

1  
2 MR. KNAPP: This is a stipulation.

3 THE CHAIRMAN: I think he is stipulating to  
4 some inaccuracies or correcting certain inaccuracies  
5 which he concedes may have been made with respect  
6 to volume in Four Seasons. I don't think he has  
7 completed his statement.

8 As I understand, he is trying to stipulate or  
9 correct an inaccuracy that you yourself have raised  
10 this morning with respect to certain volume figures.

11 Am I incorrect, Mr. Knapp?

12 MR. KNAPP: No. That is correct.

13 THE CHAIRMAN: Let's see what he says and then  
14 you can address yourself to it, Mr. Bab.

15 MR. KNAPP: In other words, I want to correct  
16 anything where it can be stipulated to a fact where  
17 at all possible. Particularly the discrepancy between  
18 the figures in the Exchange report and those claimed  
19 by Walston and Mr. Crimmins are immaterial. I would  
20 like to accept the Walston and Crimmins version as  
21 to these numbers and I want to get this on the re-  
22 cord right now.

23 The total Exchange-reported volume per the  
24 report for the period November 1968 through April  
25 1970 was 13,945,000 shares.

PAUL FROMM, C.S.R. -- STENOGRAPHIC REPORTER -- C.A. 7-6732

1  
2 MR. HILL: Can we have a page reference for  
3 this?

4 THE CHAIRMAN: You are talking about the Report  
5 of Investigation?

6 MR. KNAPP: Yes.

7 THE CHAIRMAN: That is appended to the pleadings?

8 MR. KNAPP: That is correct. The Report of  
9 Investigation is based upon a total trading volume  
10 during that period of 13,945,000 shares. That is  
11 executed transactions on the Exchange.

12 MR. BAB: Mr. Rae, we have had a stipulation.  
13 Now we have testimony from Mr. Knapp that the dif-  
14 ferences are immaterial. I would just like to call  
15 the panel's attention to the Walston report, their  
16 appendix page VI (Roman six), and they go through a  
17 page and conclude as follows: "This amazing mis-  
18 statement -- referring to the figures of Walston's  
19 participation in the market of Four Seasons -- occurs  
20 not once but eleven times" and in the footnote  
21 to the responses those pages where it appears are  
22 cited.

23 "The report, therefore -- talking about the  
24 Report of Investigation -- magnified Walston's par-  
25 ticipation in the market by one hundred percent."

PAUL FREEMAN, C.S.R. -- SYNDICATE REPORTER -- E-6 7-10-12

1  
2 THE CHAIRMAN: I think the panel can determine  
3 the materiality, if it isn't conceded, of the  
4 inaccuracy. First of all, why don't you permit him  
5 to complete the stipulation and then you can comment  
6 on it, or his proposed stipulation.

7 MR. KNAPP: I accept, and the Exchange accepts,  
8 the statement made in the Walston and Crimmins  
9 responses that the total participation of the  
10 Walston firm, including Mr. Crimmins' participation  
11 in this period November 1968 to April 1970, approxi-  
12 mately 15, 16 months, was 3,131,000 shares of Four  
13 Seasons common stock, of which Mr. Crimmins' per-  
14 sonal participation, that of his customers, includ-  
15 ing institutional accounts serviced by him, was  
16 394,010, consisting of 271,923 shares on the buy  
17 side and 122,087 shares on the sell side.

18 Now, the dispute arises not as to a factual  
19 matter, but as to a matter of Stock Exchange seman-  
20 tics and practice which the gentlemen of the panel  
21 are better qualified than any of us lawyers to  
22 resolve.

23 The Exchange's reported volume, as I indicated  
24 before, was 13,945,000 shares during this period.

25 Mr. Crimmins' counsel and Walston's counsel

1  
2 take the position that in determining Walston's  
3 participation in Four Seasons trading that we have  
4 to double the number of reported transactions and  
5 come up with something in the nature of 27-1/2  
6 million shares. The net effect of which is to  
7 ostensibly reduce Walston's participation in the  
8 total market activity by half.

9 I don't know the answer to that question. I  
10 am going to leave that strictly to the panel. My  
11 own view is that a transaction on the Exchange con-  
12 stitutes a buy and a sell. Somebody sells -- some-  
13 body buys, somebody buys - somebody sells, and if the  
14 Walston firm did participate in the sale and  
15 purchase of 3, 131,000 shares I say they participated  
16 in approximately one out of every four transactions  
17 on the Exchange.

18 If Mr. Crimmins and Walston say they partici-  
19 pated in one out of eight, I couldn't care what the  
20 answer is. All I know is that 3,131,000 shares is a  
21 great deal of stock to be traded in a period of 16  
22 months, particularly stock selling in the 50, 60,  
23 70's and up, and that Mr. Crimmins' own share of  
24 that, whether you call it four percent or two per-  
25 cent, of 394,000 shares represents a substantial

PAUL FROST, C.R.R. — MEMORANDUM — JUNE 1968

1 participation by one registered representative or  
2 account executive.  
3

4 I, therefore, submit that we have no issue in  
5 this case as to the volume of trading, the number  
6 of shares traded by Walston, the number of shares  
7 bought and sold by Mr. Crimmins for his accounts.  
8

9 At this point, and I think we should get this  
10 into the record, unless Mr. Hill or Mr. Bab have  
11 some specific comment, because I would like to  
12 get this as a matter of stipulated fact.

13 MR. BAB: I would like, in response to what  
14 Mr. Knapp has said, to read just the paragraph in  
15 the Walston response which addresses itself to this  
16 very issue, because what we are talking about is a  
17 hundred percent swing, and although there was initially  
18 a stipulation on it, if I understood what Mr. Knapp  
19 said, he kind of receded from what he was stipulat-  
20 ing to, and with your permission there is just a  
21 short paragraph in the Walston response that I would  
22 like to put in the record.

23 It is on page VI in the appendix to the Walston  
24 response.

25 "The report contains many errors with regard  
to Walston's market participation in the stock of FSN.

PAUL FROMM, C.S.R. - MEMBER BOARD - 6/2/77

1  
2 A most critical and basic error is the following  
3 statement:

4 "Walston effected on the Exchange purchase and  
5 sale transactions involving approximately three  
6 and a half million FSN shares, one out of every four  
7 shares of FSN stock traded on the Exchange during a  
8 period when total volume in the stock was approxi-  
9 mately 13,600,000 shares. Report page 63."

10 The Walston response goes on: "As every regis-  
11 tered representative is aware, volume figures  
12 published by the Exchange reflect only one side of  
13 a transaction, the sell side. Consequently, it is  
14 totally misleading to compare the combined and  
15 totalized purchases and sales by a member with the  
16 selling volume on the Exchange. The above figure  
17 should be one out of every eight shares traded on  
18 the Exchange. This amazing misstatement occurs not  
19 once, but eleven times in the report, and in the foot-  
20 note to the response those pages where it appears  
21 are cited.

22 "The report, therefore, magnified Walston's  
23 participation in the market by one hundred percent."

24 Now, one of the issues, as I read the charges,  
25 is the extent of the participation of Walston and

PAUL FREEMAN, CLERK IN SENATE REPORTER - CASE 7-012

1  
2 Mr. Crimmins in the market.

3 It seems to me that a hundred percent swing  
4 is very material and relevant. It further seems  
5 that the report, if I understand Mr. Knapp's stipu-  
6 lation, was issued on the basis of a much larger  
7 participation, namely, one and four instead of the  
8 fact: one and eight. Right there I think the report  
9 is materially deficient on that point.

10 Now, if we are stipulating it is one and eight  
11 for Walston, and I will agree to that stipulation --

12 MR. KNAPP: I did not mean to stipulate that  
13 the participation was one and eight. I offered to let  
14 the panel decide and that is a matter for them to  
15 decide, whether Walston's participation was signifi-  
16 cant in relationship to the total volume of com-  
17 pleted transactions on the Exchange.

18 THE CHAIRMAN: Let me see if I can recast  
19 this so the panel has the correct figures. As I  
20 understand it, total reported volume during the rele-  
21 vant period was 13,945,000 shares?

22 MR. KNAPP: That is correct.

23 THE CHAIRMAN: We stipulate to that.

24 We further stipulate that the total purchase  
25 and sales by Walston during that similar period was

PAUL BRENNAN, CLERK -- SEE JAMES BRENNAN -- BARRY T. GALT

1  
2 3,131,000 shares, and of that number of total  
3 purchases and sales Mr. Crimmins and his customers  
4 accounted for 394,010 shares. Is that correct?

5 MR. KNAPP: I would like to get a stipulation  
6 on those numbers.

7 THE CHAIRMAN: I think if those are to be  
8 stipulated the panel well understands what reported  
9 volume of the Exchange indicates in number of shares.

10 MR. BAB: We will so stipulate.

11 THE CHAIRMAN: We can recast the figures here  
12 accordingly.

13 MR. BAB: We will so stipulate.

14 MR. KNAPP: With that one stipulation as to  
15 a material fact relating to Waiston and Crimmins'  
16 market participation, I would like to introduce into  
17 evidence Exhibits 1 to 23 which have been marked  
18 for identification with the reservation that the  
19 Exchange reserves the right to introduce such other  
20 and further documents as it deems necessary in sup-  
21 port of the charges.

22 THE CHAIRMAN: Counselor, have you had an  
23 earlier opportunity to review the documentation  
24 that is being offered here in evidence?

25 MR. BAB: Mr. Rao, I think Mr. Swidler of our

PAUL PROGRAM, CHAIR. -- STENOGRAPHIC REPORT -- BACKY 7-2-52

1  
2 process, to expose Crimmins to making a response on  
3 the present state of the record.

4 MR. KNAPP: May I, I think, maybe confine this  
5 thing to this case instead of constitutional gen-  
6 eralities and threats of running to the courthouse.  
7 Let's get down to the issues in this case.

8 The charges to a very large extent and the Report  
9 of Investigation revolve around what the Exchange  
10 deems to be a rather bizarre transaction, the facts  
11 concerning which are entirely within the knowledge of  
12 Mr. Crimmins, and that is to say a purchase from the  
13 insiders of Four Seasons Nursing Homes of 30,000  
14 shares of unregistered stock concealed from Walston  
15 and concealed from the Stock Exchange for a cash in-  
16 vestment of approximately \$6.66 a share when for the  
17 entire year 1969 the approximate market value of  
18 these shares ranged between one and a half and two  
19 million dollars.

20 Now, it was restricted stock, surely, but tak-  
21 ing Mr. Crimmins own valuation of restricted stock  
22 that it should be accorded a 30-percent discount from  
23 market, here we had a man coming before the Stock  
24 Exchange, called down, told the Exchange he had  
25 600 shares of stock, of Four Seasons stock. When

PAUL FROVIA, C.S.R. -- DIRECTOR REPORTER -- 6/24/71 7-6932

1  
2 confronted with a stockholders list which the Exchange  
3 procured, he admitted, he admitted I forgot  
4 to tell you I got another million and a half dol-  
5 lars worth of stock from the insiders of the company.

6 If you look at Charge 1, which basically  
7 charges breach of ethical business standards and  
8 business practices, not any high-flown theories of  
9 antimanipulative provisions of the securities laws  
10 or indictable subject matters, the burden for ex-  
11 planation of undisputed facts relating to these in-  
12 side dealings in Four Seasons stock and his contacts  
13 with the principals of Four Seasons, and his very ex-  
14 tensive market participation -- I will strike the  
15 words "very extensive" -- 400,000 shares of a 60 to  
16 70 dollar stock seems to me to be a lot of trading.  
17 You gentlemen may disagree.

18 MR. HILL: Can I address myself to that? I am  
19 shocked by what I hear.

20 MR. KNAPP: I haven't finished yet. All of these  
21 facts, apart from the conclusion, are essentially  
22 undisputed. They come from Mr. Crimmins' lips and  
23 they come from documents presented by Mr. Crimmins.  
24 The rest of the documents merely give color to,  
25 give the context of, give a fuller picture of these

FAIR. FROMM, GSR. - CREDITED RECORD - COPY 7-5022

1  
2 basic transactions which are based solely on Mr.  
3 Crimmins' testimony and documents produced by him  
4 or as to which there is no question about authen-  
5 ticity.

6 THE CHAIRMAN: Mr. Knapp, let me interrupt you,  
7 and I am asking this question merely to assist the  
8 panel in making a determination.

9 Would it not be preferable that we learn of  
10 Mr. Crimmins' participation, the knowledge, through  
11 his own lips, rather than to accept from you a sum-  
12 mary from the staff as to what they thought he said  
13 or the meaning of what he said? This isn't out of  
14 the realm of the Exchange's ability. Mr. Crimmins  
15 is sitting here.

16 I am not suggesting you to do it that way, but  
17 it arises in my mind sitting here as a panel member  
18 when we want to get to the truth, and obviously we  
19 recognize, I think, the perhaps lack of discovery,  
20 or legal tools one has in an Exchange proceeding for  
21 gathering evidence and bringing in witnesses, if we  
22 have to recognize that.

23 MR. KNAPP: Is it your suggestion, Mr. Rao --

24 THE CHAIRMAN: I am not suggesting. I am rais-  
25 ing in a sense that it arises in my mind, because it

FAIR, PRIMA, C.S.B. -- STATISTICAL REPORT -- 1964-65

1  
2 it appears that we are being asked, and it may be  
3 perfectly proper that we are being asked, to deter-  
4 mine that matter, but by memorandum of other people  
5 capsulizing certain aspects of the testimony as to  
6 what he knew, rather than hearing it from the wit-  
7 ness' own lips to the extent of what he knew, what  
8 he did, what he participated in, what have you, get-  
9 ting to the very essence of the charges made. I  
10 am not suggesting how you conduct this, but in a  
11 sense it is certainly that route is not beyond the  
12 capabilities of the Exchange with respect to your  
13 ability to get witnesses.

14 I think you pointed out that in certain cases  
15 there would never even be an Exchange proceeding  
16 because of its inability or lack of legal tools to  
17 obtain certain information or subpoena certain wit-  
18 nesses to come in to a proceeding.

19 MR. KNAPP: May I suggest, Mr. Rao, that by  
20 introducing the testimony of Mr. Crimmins, which I  
21 have offered in evidence as Exhibits 10-A and 10-B,  
22 and all of the exhibits introduced into evidence,  
23 introduced into evidence at his interview, haven't I,  
24 in effect, presented an Exchange case based upon  
25 the testimony given by Mr. Crimmins, which, of

1  
2 course, I have offered to do by introducing Mr.  
3 Grinnins' transcript of testimony into evidence,  
4 assuming that Mr. Hill stipulates that the tran-  
5 script that is sitting there on the table is authen-  
6 tic.

7 THE CHAIRMAN: Of course, assuming that is so,  
8 and I just noted that the transcript was offered,  
9 even though I noted it was to be attached to the  
10 Report of Investigation.

11 MR. KNAPP: No. That is an exhibit introduced  
12 here as 10-A.

13 Now, perhaps this might short-circuit matters  
14 if the reporter, and I think it would just unduly  
15 lengthen matters, if the reporter were to enter  
16 into the record here a summary of all of the docu-  
17 ments comprising Exhibits 1 to 23, because although  
18 the exhibits are numbered 1 to 23, certain of these  
19 consist of folios containing many times as many as  
20 30 or 40 different documents.

21 THE CHAIRMAN: I think before we get over-  
22 whelmed, the panel, with papers and exhibits and  
23 referrals, I think we are going to go in recess to try  
24 to make a determination of the rulings.

25 MR. HILL: Can I make one observation before you

PAUL PETERSON, C.S.R. — INTERVIEW REPORT — MARCH 7, 1968

1  
2 do that, Mr. Rae, and I don't want to impose on your  
3 time, but it is this afternoon for the first time  
4 that I have heard the charge from a member of the  
5 Exchange on the record that their real complaint  
6 against Mr. Grumins is the purchase of this re-  
7 stricted stock.

8 Not once in the report, nor in the statement of  
9 charges has the assertion been made by this Exchange  
10 that there was something intrinsically improper in  
11 that transaction, and indeed counsel, in describing  
12 the transaction, describes it inaccurately. He says  
13 he bought it for six dollars a share and that isn't  
14 so. He bought it for \$35 a share and it represented  
15 a 30-percent discount for hair cut.

16 MR. KNAPP: I said in cash, Mr. Hill.

17 MR. HILL: Fine. Then why don't you tell us what  
18 the whole purchase price was because it was a 30-  
19 percent discount which is the normal discount for  
20 restricted stock, and there isn't anybody in this room  
21 that doesn't know that to be the fact.

22 Now, if the Exchange thought at any point in  
23 time that that transaction was inherently wrongful,  
24 illegal, immoral, indecent, we were certainly en-  
25 titled to know that before today. This is what's the

PAGE. 100000, C.S.R. -- SOURCE 20 1000 -- 2000 7-5512

1  
2  
3 matter with this proceeding.

4 This is exactly the point we made earlier  
5 today; that we never had notice of really what they  
6 are complaining about, and that is now a matter of  
7 record in this hearing, and this whole transaction  
8 is described at page 13 of their report. It is,  
9 I think, rebutted without any question in our  
10 answer.

11 I don't propose, and I don't think it is fair  
12 to suggest, as has been suggested here just a moment  
13 ago, that given this state of the record Mr.  
14 Crimmins be asked to testify to anything. He has  
15 now made a charge that is outside the scope of the  
16 Exchange's own charges and he is suggesting that by  
17 receipt into evidence of this amorphous body of  
18 documents, and maybe a transcript, that the burden  
19 is shifted to Mr. Crimmins to come forward. I sub-  
20 mit that it is not.

21 We just can't come to a proceeding where really  
22 all we have done all day is argue. There hasn't  
23 been a morsel of evidence placed in the record, and  
24 we seem to be gradually drifting to a point where  
25 (1) the charges have just been expanded. We have  
been presented with a list of documents, the relevance

PAUL ARTHUR, C.E.S. - CHIEF OF RECORDS - JULY 7-1942

1  
2 of not one particular document have we yet been told  
3 about, but notwithstanding all that we seem to be  
4 drifting to a point where somehow in the face of  
5 this Mr. Crimmins is to be asked to come forward  
6 and rebut these charges. That is not a hearing.  
7 That is not a right to examine and cross examine  
8 witnesses. That is what Judge McMann said we were  
9 entitled to, and I think that's what Judge Lasker  
10 was concerned about.

11 THE CHAIRMAN: I think we have to cut this brief,  
12 Mr. Knapp. We have to go into session.

13 MR. KNAPP: I would just like to add this. The  
14 case is not based on the purchase or sale of re-  
15 stricted stock. Mr. Hill, and I don't blame him,  
16 is trying to fragmentize the case into bits and  
17 pieces. The case is involved with a course of busi-  
18 ness conduct over a lengthy period of time of  
19 approximately a year of which this particular trans-  
20 action with insiders of Four Seasons is an aspect  
21 and a material aspect. I want to make that very  
22 clear.

23 THE CHAIRMAN: We will go into recess, gentle-  
24 men, for approximately ten minutes.

25 (Recess taken.)

PAUL PERHAM, C.S.R. --- STENOGRAPHER --- Gandy 7-2932

BEFORE THE  
AMERICAN STOCK EXCHANGE

In the Matter of the  
Disciplinary Hearing,

of

FRANK J. CRYDMAN

26 Trinity Place  
New York, New York

July 18, 1973  
10:00 a. m.

B E F O R E:

THOMAS W. PAH, Chairman

MARTIN H. BREMAN, Member

THOMAS SCULL, Member

GEORGE R. HOWARD, Jr., Member

ROBERT HILL, Member

Disciplinary Panel



new charges, and the whole thing is that we don't know what we are defending.

We received on Monday a letter from Mr. Knapp --

MR. KNAPP: I would like to know what you are referring to.

MR. BAB: I will be happy to let you know.

Indeed, I would like to mark it as a respondent's exhibit. It is a letter dated July 13, 1973, from Mr. Burton Knapp to Mr. Thomas Hill, attaching what appears to be the first five pages of Exchange's Exhibit 37, the so-called chart.

MR. KNAPP: That is Exhibit 36.

MR. BAB: I think we ought to have it marked so that the panel knows what I am talking about.

MR. BURNS: Respondent's Exhibit 3 is a letter to Thomas W. Hill from Burton L. Knapp dated July 13, 1973.

(The letter referred to was marked Respondent's Exhibit 3 for identification.)

THE CHAIRMAN: You keep referring that you don't know what the charges are here. This panel thinks it does. I am reading from a complaint which has a Charge 1, a Charge 2, and a Charge 3.

MR. BAB: May I be heard for about two minutes?

ALL PROGRAM, CASE - EXHIBITS RECEIVED - 6/20/73 7-0012

1  
2 I think I can show you the problem.

3 THE CHAIRMAN: I am confused. If counsel  
4 says he doesn't know what the charges are, I feel  
5 I know what the charges are, and I think this panel  
6 knows what the charges are.

7 MR. BAB: Perhaps I can put a little doubt on  
8 it if I go through Mr. Knapp's later document.

9 As I look at this document, and I think the  
10 first five pages are probably the same as what the  
11 panel received --

12 THE CHAIRMAN: You are referring to Exhibit  
13 37?

14 MR. KNAPP: Exhibit 36.

15 THE CHAIRMAN: Analyses of document sources?

16 MR. BAB: Exhibit 37, as I understand it, is  
17 a complete document of which Respondent's 2, just  
18 marked, is the first five pages.

19 MR. BURNS: That letter is respondent's exhibit.  
20 The exhibit submitted by Mr. Knapp is 36.

21 MR. BAB: We, as counsel for Mr. Crimmins, re-  
22 ceived on Monday only Respondent's Exhibit 23, which  
23 is incomplete on its face and appears to be the first  
24 five pages of what the panel was given this morning.  
25 The stipulation entered into last week was that we

1  
2 pation by a hundred percent.

3 Now we are revising the report in this Respond-  
4 ent's Exhibit 3 by agreeing to the Walston numbers,  
5 which are substantially half of what the report  
6 states.

7 THE CHAIRMAN: I think it was stipulated to at  
8 the last hearing.

9 MR. BAB: But there is more to it than that. If  
10 you turn to page 2, at the top of page 2 of Respond-  
11 ent's 3, it then talks about whether or not Walston's  
12 participation and that of Mr. Crimmins was sig-  
13 nificant in regard to the total volume.

14 Well, that is not the charge. The charge is  
15 extensive and concerted market solicitation and  
16 activity. There is nothing here about extensive  
17 and concerted activity. They have changed the  
18 standard. Now, somehow, significant is the key.

19 There is no word of concerted activity, but  
20 that was in the charges as we read them. That is  
21 now deleted. Is it no longer an allegation against  
22 Mr. Crimmins? We don't know and we submit that  
23 neither does the Exchange.

24 THE CHAIRMAN: Let me interrupt you on the one.  
25 I think the volume participation of Walston and Mr.

1  
2 Crimmins in Four Seasons trading has some relevancy  
3 as to the extent of his relationship with that com-  
4 pany and participation with that company with rela-  
5 tion to Charge 1, as background.

6 MR. BAB: It may be --

7 THE CHAIRMAN: Not standing alone, obviously,  
8 but it does give someone some background as to the  
9 participation of Mr. Crimmins and his firm in this  
10 particular stock.

11 MR. BAB: There is a world of difference between  
12 extensive and concerted activity and significant  
13 activity.

14 THE CHAIRMAN: That is for the panel to decide.

15 MR. BAB: Yes, but the charge has been changed.  
16 Are we coming in here with some kind of a claim  
17 that initially the proof must be beyond a reasonable  
18 doubt and suddenly it is switched to a clear pre-  
19 ponderance? The standard seems to be changed.

20 THE CHAIRMAN: I don't think it substantially  
21 changes Charge No. 1.

22 MR. BAB: Let me show you the other changes  
23 made.

24 THE CHAIRMAN: Basically, it is referring, in  
25 parlance, to an insider type.

PAUL FROMAN, C.S.R. -- SIDNOTYPE REPORTER -- BANCROY 7-3552

1 MR. BAB: Has the Exchange withdrawn the  
2 "concerted and extensive participation" charge or  
3 allegation? I don't know if we have to meet that  
4 charge in this proceeding.

5 THE CHAIRMAN: I think that is a factual deter-  
6 mination rather than one of trying to characterize  
7 what substantial or inconsequential is, but it will  
8 be determined by the panel.

9 MR. BAB: Is the respondent put to his proof  
10 to show there was no concerted activity, or isn't  
11 he required to meet that allegation? Concerted  
12 carries connotations, I think, that are fairly sig-  
13 nificant. Are we facing something like a conspiracy  
14 charge? What does concerted participation mean?

15 THE CHAIRMAN: Where in Charge 1 does that  
16 language appear?

17 MR. BAB: It appears about three times, Mr.  
18 Ric.

19 THE CHAIRMAN: I would like you to direct us  
20 to your remarks as to the charges.

21 MR. BAB: It appears on page -- the first time  
22 it appears is on page 8, which certainly has a refer-  
23 ence to it, the bottom of the page: "As disclosed  
24 by the facts set forth in the report, this effort  
25 involved the active solicitation of public customers

1  
2 by Mr. Crimmins and other officers of Walston as  
3 well as their concerted activities to develop sub-  
4 stantial institutional interest in FSN. This ex-  
5 tensive market activity, in which Mr. Crimmins was  
6 a principal participant," and so on and so forth.

7 THE CHAIRMAN: I think the facts will speak for  
8 themselves, the relationship to their participation  
9 in the marketplace as compared to other firms or  
10 other individuals. There was market activity.  
11 Whether we characterize it to be extensive with rela-  
12 tion to the volume figure is something we will have  
13 to determine.

14 MR. BAB: Then, if we move on to page 3 of  
15 Respondent's 3, this is nothing more than an effort,  
16 at the top of page 3 -- the paragraph is correcting  
17 another mistake made in the record as to the hold-  
18 ing period.

19 The second paragraph on page 3 talks about Mr.  
20 Crimmins' beneficial interest and his stock and his  
21 percentage and so forth and relates it to section 3  
22 of the report. Section 3 of the report does not  
23 otherwise mention Mr. Crimmins, other than to make  
24 a conclusory statement that he had a close relation-  
25 ship.

1  
2           What this second paragraph is on page 3 is the  
3 addition of an allegation to the section on report  
4 3 which did not previously exist.

5           Moreover, to the extent we are dealing with  
6 an inside-information question, this whole second  
7 paragraph predates anything that we can find in  
8 the report as being an innuendo that Mr. Crimmins  
9 had inside information. All the inside-information  
10 innuendoes relate to 1969. This is the early part --  
11 well, prior to November 26, 1968. It is an addition  
12 of an allegation which nowhere else existed in the  
13 report.

14           Now, on page 4 of Respondent's 3, in the second  
15 paragraph, they revised the report by withdrawing  
16 an allegation. They withdraw the allegation with  
17 respect to Mr. Crimmins in relation to the so-called  
18 numbered accounts which were maintained by Walston  
19 in Chicago.

20           MR. KNAPP: There never was any charge made or  
21 implication that Mr. Crimmins had knowledge of the  
22 numbered accounts. This is out of this case.

23           MR. BAB: That is exactly the point. It comes  
24 in the body of the report in which all these materi-  
25 als are discussed concerning a close relationship.

1  
2 THE CHAIRMAN: Mr. Bab, I must go back again.  
3 Maybe this panel is incorrect or doesn't understand.  
4 We are considering here Charges 1, 2 and 3, as  
5 specified. In the course of that investigative  
6 report which was amended to the complaint, if there  
7 are allegations about other matters, they are not  
8 being considered by this panel. We are going to  
9 limit ourselves to three specified charges made by  
10 the American Exchange on pages 2 through 7 of the  
11 complaint of November 24, 1971.

12 MR. BAB: On page 5 -- and I look at the last  
13 paragraph -- and the following sentence appears in  
14 Respondent's Exhibit 3: "The Exchange's position is  
15 that the undisclosed purchases by Mr. Crimmins of  
16 30,000 PSN shares from the company's principal manage-  
17 ment officials and on terms which put him heavily in  
18 debt to these individuals, even when viewed  
19 separately, do not measure up to Exchange standards."

20 I don't believe that charge is anywhere in the  
21 November charges. That is an entirely new charge  
22 which we have been hit with for the first time in  
23 four years. This investigation or inquiry started  
24 in 1969.

25 THE CHAIRMAN: It is not a charge before this

PAUL FREEMAN, GSA ... HONORARY REPORTER -- DATED 7-2-82

1  
2 panel.

3 MR. KNAPP: That's correct.

4 THE CHAIRMAN: It is not specified as a charge  
5 before this panel. This document is not evidence.  
6 It is merely marked for identification so we have  
7 something in the record to know what we are speak-  
8 ing of here.

9 In a sense, if counsel chose to put a little  
10 legal argument in there, perhaps he has, but it  
11 is not evidence.

12 MR. KNAPP: It is a matter for the panel to  
13 decide.

14 THE CHAIRMAN: But we do not deem that any  
15 additional charge has been made by this document.  
16 There has been no amendment of this complaint for  
17 Specifications 1, 2 and 3. The panel at this time  
18 will limit itself until such time as there is some  
19 formal amendment, and there has been none, to those  
20 three specified charges. You will be permitted to  
21 address yourself as to whether the Report of Inves-  
22 tigation, which I think is now marked for identifica-  
23 tion as Exhibit 2, should be, in whole or in any  
24 part, admitted into evidence.

25 I would like to go back again and go through

PAUL FRONTA, C.S.R. - GENEVIEVE REYNOLDS - Bucky 7-0952

1  
2 counsel?

3 MR. KNAPP: Yes, I am.

4 THE CHAIRMAN: Mr. Bab?

5 MR. BAB: We object to the characterization on  
6 this list of the exhibits. We do not otherwise.  
7 The actual documents we will stipulate, but not  
8 the characterizations.

9 THE CHAIRMAN: Exhibit 16 is admitted.

10 (File off 14 documents re Walston and Exchange  
11 correspondence concerning activities in Four Seasons  
12 stock, heretofore marked Exchange Exhibit 16 for  
13 identification, was received in evidence.)

14 THE CHAIRMAN: Exhibit 17. That, incidentally,  
15 is a request to the Federal Reserve Board and an  
16 opinion letter from the Federal Reserve Board, I  
17 assume, dated April 24, 1972.

18 MR. BAB: We do not challenge the authenticity,  
19 but it has no place in evidence. It is a matter of  
20 law which may be submitted in support of the legal  
21 position of the Exchange. We object to having it put  
22 in as evidence.

23 Just for the record, may we show that the date  
24 of the opinion is April 1972? It was not even in  
25 existence when the charges were issued in November of

PAUL FREEMAN, C.E.C. - MEMORIAL REPORTER - NACW 7-0312

1971. It has no part as fact material.

THE CHAIRMAN: It will be admitted. The Board will determine its weight after perhaps hearing more with respect to the legal interpretation.

MR. BAB: That opinion is based on a number of facts or assumptions, factual assumptions which we challenge. To put that document into evidence without the writer being here to find out what he based his assumptions on, or whether they were material to his opinion, we believe is prejudicial.

Am I incorrect in believing that those two documents are, one from the American Stock Exchange, requesting an opinion, and a response?

MR. KNAPP: Yes.

THE CHAIRMAN: Was there any other correspondence or telephone conversation relating to that opinion letter that you are aware of, counsel?

MR. KNAPP: Not to my knowledge, Mr. Chairman.

MR. BAB: It says on its face that part of it is based on an oral conversation with Mr. Gordon Nash.

THE CHAIRMAN: May I see the document, please?

(Document handed to the Chairman.)

THE CHAIRMAN: Counsel, may I inquire when this letter was sent to the Federal Reserve Board, to

PAUL PROVAN, C.S.N. -- DECEMBER REPORTS -- JANUARY 7-1972

1  
2 Miss Hart? It obviously does not identify a broker-  
3 age firm, identify an issuer or identify individuals.  
4 Was this letter particularly addressed to the  
5 Exchange's feelings with respect to the particular  
6 case and circumstances against Mr. Crimmins and  
7 Four Seasons and Walston?

8 MR. KNAPP: It was specifically addressed for the  
9 purpose of an opinion of the Board in this case  
10 involving Mr. Crimmins, to my knowledge.

11 THE CHAIRMAN: So the factual situation in  
12 a sense hypothetically was the Exchange's view of the  
13 actual situation with respect to the Walston matter?

14 MR. KNAPP: Precisely.

15 THE CHAIRMAN: Their opinion as to what the facts  
16 were?

17 MR. BAB: I direct your attention to the last  
18 paragraph on the first page, where the writer of this  
19 opinion says, as an alternative basis, "However,  
20 you stated orally to the Board's staff --"

21 THE CHAIRMAN: You are reading the reply from  
22 the Board?

23 MR. BAB: The reply to Mr. Gordon Nash, who  
24 also is not here: "However, you stated orally to  
25 the Board's staff on February 1, 1972 your under-

PAUL PRONNA, C.S.A. - NEWTON REPORTER - Luby 7-032

standing that the brokerage firm subsequently consented to the acts of its officer."

That is one fact which was given orally by Mr. Gordon Nash, who is not here, to Mr. Greenspan, who is not here. We don't know the basis of the assertion. In fact, we challenge it.

Indeed, Mr. Knapp challenges it in Respondent's 3, which we put in, which we discussed, in which he says this whole thing was undisclosed to Walston. If you recall, the one I said was a new allegation. Mr. Knapp said it was the Exchange's position that this restricted stock purchase was undisclosed to Walston.

Now we have an opinion based upon apparently the Exchange's representation that Walston disclosed --

MR. KNAPP: Fundamentally, it is based upon the facts stated in the report and buttressed by the evidence. This is just exchanges of legal views, which is a matter of an ultimate determination by the panel. This can be given whatever weight the panel chooses to attach or not to attach.

THE CHAIRMAN: Keeping in mind your arguments, we will admit Exhibit 17.

(Correspondence exchanged between ASE and

PAUL SEYMOUR, C.S.R. -- SECTION REPORTER -- SACSAY 7-0902

1  
2 Federal Reserve Board, heretofore marked Exchange  
3 Exhibit 17 for identification, was received in  
4 evidence.)

5 MR. BAB: We have prepared a memorandum directed  
6 primarily to that opinion, a memorandum of law.

7 THE CHAIRMAN: Can it be offered during the  
8 course of your presentation in defense?

9 MR. BAB: If it is the panel's disposition to  
10 put this document into evidence, we ought to put  
11 our memorandum of law into evidence.

12 THE CHAIRMAN: Would you identify the exhibit  
13 you would like marked for identification? It will  
14 be Respondent's Exhibit 4.

15 MR. BAB: It is a memorandum of law dated July  
16 18, 1973, a memorandum of law in support for dis-  
17 missal of Charge 3. That is the Regulation "T"  
18 charge.

19 THE CHAIRMAN: Any objection?

20 MR. KNAPP: Not to the memorandum itself.  
21 I object to the conclusions stated.

22 THE CHAIRMAN: Well, we may ask to hear both  
23 sides further on this problem. It will be admitted  
24 in evidence as Respondent's Exhibit 4, as identified.

25 (The memorandum of law referred to was marked

PAUL PERHAM, C.S.2 -- MEMORANDUM SUBMITTED -- October 7-1973

1  
2 came from an authentic source or where it came from,  
3 we would like it.

4 MR. KNAPP: I offer it for the limited pur-  
5 pose of showing that Mr. Crimmins was a two-percent  
6 partner in Montgomery, and that he had a \$10,000  
7 interest in Montgomery Company, if for no other pur-  
8 pose.

9 THE CHAIRMAN: Can we stipulate rather than the  
10 document, stipulate as to his percentage in dollar  
11 investment in the Montgomery Company on the record?

12 MR. BAB: We will stipulate that Mr. Crimmins  
13 was a two-percent limited partner in Montgomery;  
14 that he put up \$3000 cash and a \$7000 credit extension  
15 with that interest.

16 THE CHAIRMAN: So his total equity contribution  
17 would have been \$10,000?

18 MR. BAB: Of which \$7000 is credit.

19 THE CHAIRMAN: Is that acceptable to you, Mr.  
20 Knapp?

21 MR. KNAPP: Yes. There is a letter from Walston  
22 & Co. dated June 5, 1968, just called to my atten-  
23 tion, which I would offer as part of Exhibit 23, if  
24 there is no objection.

25 THE CHAIRMAN: I think it is unnecessary to

PAUL FROMM, C.S.R. -- MONROVIA RECORDER -- Sunday 7-25-68

1  
2 experience of this business to an intelligent  
3 evaluation of the facts. And to facilitate that  
4 determination and to focus -- and I think quite  
5 fairly so -- the panel's concern only on the activ-  
6 ities of Mr. Crimmins -- I have under very consider-  
7 able labor over the last week given all the things  
8 that occurred to provide this roadmap or guide to  
9 the course of conduct constituting a report.

10 To be blunt about it, there has never been,  
11 either in this hearing or in any of this vast  
12 array of documents we have seen, any real explana-  
13 tion of the transactions between Mr. Crimmins and  
14 the three principals of Four Seasons which resulted  
15 in Mr. Crimmins' purchase, on very unusual credit  
16 terms, of a very substantial block of Four Seasons'  
17 stock. Questions were asked and never answered.  
18 Was this a gift? Was it for services rendered?

19 MR. BAB: I have to interrupt. This is the very  
20 point you raised this morning. This is not in the  
21 charges. It is in this latest piece of paper we  
22 have gotten. You overruled my objection on the  
23 grounds it was not a charge. This is irrelevant and  
24 highly prejudicial in the nature of testimony by Mr.  
25 Knapp.

1  
2 THE CHAIRMAN: This panel's impression is that  
3 we are sitting and we intend to sit on Charges  
4 1, 2 and 3. "1" is obviously a broad charge which  
5 includes the relationships of Mr. Crimmins with  
6 Four Seasons, his knowledge of that company, con-  
7 tacts with that company. It is broad, but to a  
8 degree, I will repeat, we are considering Charges  
9 1, 2 and 3, which are laid out with some specificity.

10 MR. BAD: We are now discussing the report as  
11 being offered in evidence. I don't think this dis-  
12 cussion has anything to do with that issue.

13 THE CHAIRMAN: Well, if he intended to make an  
14 offer of proof, and that is all it is being taken  
15 as -- argument, not evidence.

16 MR. KNAPP: The facts stated in section 5 of  
17 the report, as to Mr. Crimmins' two purchases from  
18 the three principals of Four Seasons of 20,000  
19 shares of Four Seasons' stock, the Exchange stands  
20 squarely upon the facts stated in the report, not  
21 one of which has been denied or challenged by Mr.  
22 Crimmins at any point in this proceeding.

23 The only explanation we have gotten so far is --  
24 that it was a perfectly legitimate transaction.  
25 Everybody buys restricted stock. It is Mr. Crimmins'

1  
2  
3 own personal business. The fact that he didn't dis-  
4 close it to his firm, to his customers or to the in-  
5 vesting public is irrelevant to the charges here.

6 The Exchange's position, very simply, is that  
7 that transaction, standing alone, cannot be isolated.  
8 If you turn to page 6, with items in chronological  
9 order 1 through 37, detailing Mr. Crimmins' personal  
10 business contacts with the Four Seasons' management,  
11 his efforts to promote interest in the stock, the  
12 fact that while all this was going on he remained  
13 heavily indebted to the principals of Four Seasons,  
14 it raises perhaps the fundamental question relating  
15 to Charge 1.

16 Why, in all of the thousands and thousands of  
17 stockbrokers in the United States, was Mr. Crimmins  
18 singled out by the management of Four Seasons as the  
19 purchaser of 30,000 shares of personal stock from the  
20 management of the company?

21 I think that there are more than sufficient facts  
22 stated in the report, in the exhibits, particularly  
23 Mr. Crimmins' own testimony, to cast upon Mr. Crimmins  
24 the burden of going forth to explain those transactions  
25 in the context of his course of conduct. For that  
reason, the Report of Investigation, to the extent

1  
2 it is based upon evidence provided by Mr. Crimmins,  
3 undisputed matters of record and testimony of wit-  
4 nesses subject to cross examination and call, should  
5 be admitted into evidence, with the panel being free  
6 to attach whatever weight it wishes at the conclusion  
7 of the entire hearing, after hearing Mr. Crimmins.

8 MR. BAB: All I can say is that that, to me,  
9 is a rather shocking statement. There is nothing in  
10 this report which says there is something intrin-  
11 sically wrong with the transaction. There is a  
12 claim. There is a rule 5 claim. It is one of the  
13 myriad of facts originally set forth.

14 If I understand what Mr. Knapp has said, it is  
15 that the staff has a question about this purchase  
16 which they don't feel they have gotten a good answer  
17 on. Therefore, by writing it on a piece of paper  
18 called a report and submitting it, somehow, at a  
19 disciplinary hearing, the individual -- in this case,  
20 Mr. Crimmins -- has the burden of showing he has a  
21 satisfactory explanation for what, I am frank to  
22 say, looks like a kind of purchase that happens very  
23 often. Indeed, if this goes much further, we would  
24 put in evidence to that effect.

25 You used the term "fair play." Let me say that

1  
2 due process, whichever we are talking of, it is the  
3 same issue. That is just not what the hearing is  
4 about.

5 Mr. Knapp, in his long discourse, talked of pub-  
6 lic disclosure, disclosure to the public, the cus-  
7 tomers and so forth. Well, this is not in this re-  
8 port and I don't see it in the charges. This is not  
9 conceding that we don't have a very good answer to  
10 that issue, if it is an issue.

11 I suppose I ought to give you the answer now  
12 since Mr. Knapp has mentioned it. Mr. George  
13 Cabell, the compliance officer of Walston, testified  
14 there was no rule to do this. In his view this  
15 Grimmings' transaction, in not reporting it to Walston,  
16 was perfectly correct. I believe it is on page 16  
17 of our response.

18 We just don't know what issue we are facing.

19 THE CHAIRMAN: When you prepared your answer, which  
20 I have read, did you attempt -- to what extent did you  
21 attempt to address yourself to this entire Report of  
22 Investigation in your answer?

23 MR. EAB: We tried to respond to as much of  
24 it as we could, with this qualification. We tried  
25 to use the Walston response, which had been submitted

2  
3 previously, to refer to that as to those matters of  
4 which we just had no knowledge. We had to rely on  
5 Walston.

6 In our view, there are so many innuendoes and so  
7 many conclusory statements, I can't say we responded  
8 to every innuendo or conclusion in that report.  
9 We probably did not, as I am learning today.

10 THE CHAIRMAN: I assume your attempt was trying  
11 to limit yourself to areas directly affecting your  
12 client or transactions?

13 MR. BAB: That is the vice of this whole prob-  
14 lem. We have never been able to do it. That was the  
15 reason for our letter of December 1971.

16 In the charges, looking at the first page, there  
17 is a whole statement here, Charge 1(a), the special  
18 relationship. It includes the access which Walston  
19 and its officers had to inside information concern-  
20 ing FSN.

21 To what extent does that allegation refer to Mr.  
22 Crimmins and to what extent does it refer to other  
23 officers of Walston, other than Mr. Crimmins? To  
24 what extent is there an implication that there was  
25 some concerted activity? Are they implying there  
was conversation among them? To what extent does it

PAUL PERHAM, C.S.M. -- MICROTYPE REPRODUCER -- SACS 7-0312

1  
2 relate only to Walston?

3 I just don't know. We don't have access to  
4 the other officers mentioned. All we can do is  
5 answer for Mr. Crimmins, which we have attempted  
6 to do.

7 MR. KNAPP: I think we are getting confused  
8 between legal standards and ethical standards. I  
9 think the panel should keep in mind that the funda-  
10 mental issue here is one relating to matters of  
11 ethics and business standards and whether the total  
12 course of conduct created a conflict of interest  
13 between Crimmins' primary obligation to his cus-  
14 tomers, the investment public, and the Exchange,  
15 and his own self-interest in trying to enhance the  
16 value of the Four Seasons stock which he received from  
17 the insiders of Four Seasons.

18 This is an ethical problem, a business problem.  
19 It involves standards of behavior which are critical,  
20 in my view, to the development and growth of this  
21 industry in the long run.

22 THE CHAIRMAN: What concerns me, Mr. Knapp-- and  
23 it could be an entirely different situation had the  
24 report addressed itself solely to Mr. Crimmins -- is  
25 that you are asking us to take into evidence a

PAUL FARMER, C.S.R. -- SUCCESSOR REPORTER -- Stanley 7-0532

1  
2 Report of Investigation which obviously covers the  
3 activities of other individuals and firms in the  
4 overall Four Seasons situation. Frankly, to deter-  
5 mine its weight we would have to read the entire  
6 report.

7 You are telling us that certain portions prob-  
8 ably should be disregarded by us to an extent that  
9 it is not directly relevant to the client here. In  
10 fact, when it refers to certain testimony, that  
11 testimony isn't even before this panel, for us even  
12 to weigh whether the characterizations in the re-  
13 ports are correct. That is what disturbs me.

14 MR. KNAPP: The testimony of all other wit-  
15 nesses, other than Mr. Crimmins, has been withdrawn  
16 specifically by the Exchange.

17 THE CHAIRMAN: I appreciate it.

18 MR. KNAPP: If you would very quickly go through  
19 the analysis, it is confined strictly to Mr. Crimmins'  
20 own activities, keyed chapter and verse to his own  
21 testimony and other exhibits put into evidence, with-  
22 out reference to the testimony of others, and pages  
23 on the reported investigation.

24 I think it is a legitimate area of the investi-  
25 gation, in a report of this type, for the Exchange

1  
2 staff to suggest conclusions to be arrived at as  
3 a result of the facts. You gentlemen are perfectly  
4 free to ignore those conclusions or follow those  
5 conclusions.

6 Based on those facts, you may come to some  
7 other conclusions, as Mr. Crimmins may come to some  
8 other conclusions. I think we have made it very  
9 clear during the hearing.

10 All we want before the panel is the totality  
11 of the course of conduct in the context of Mr.  
12 Crimmins' rather unusual dealings with principals of  
13 Four Seasons.

14 THE CHAIRMAN: In a normal legal proceeding,  
15 where you have a complaint and an answer, since the  
16 Exchange seemed to put itself in a situation that  
17 since they incorporated this report in the charges,  
18 it seems to be relating it as background information,  
19 where great facts are laid out as to background,  
20 where one leaves or is incorporated or does business,  
21 and then you get into basic charges. And those are  
22 set forth with specificity, 1, 2 and 3.

23 Generally, could they relate to Mr. Crimmins?  
24 If he were to deny certain factual allegations which  
25 you had made as a complaint, it isn't in evidence.

PAUL ROSSMAN, C.S.D. -- CRIMMINS REPORT -- 8/15/77 7-1121

1  
2 It is for you to later, since he has not admitted  
3 those charges -- the plaintiff would have the burden  
4 of establishing those independently, not just laying  
5 out the complaint and saying there it is. They say  
6 it isn't true. You say, "It is true. He has to  
7 overcome it."

8 This Report of Investigation, it seems to me,  
9 has been incorporated as part of a speaking complaint.  
10 Frankly, it is enough to deny certain allegations, and  
11 certain of this has independent evidence. Some of  
12 these exhibits certainly have sound evidence which this  
13 panel can consider in connection with the charges.  
14 This is asking us almost to accept a speaking com-  
15 plaint which in many cases has been controverted by  
16 an answer in evidence.

17 MR. KNAPP: We are talking about a matter of  
18 pleading. This is one thing. We are talking here  
19 about a hearing where we have now spent the better  
20 part of two days putting in evidence.

21 THE CHAIRMAN: This Report of Investigation is  
22 in your pleadings. You incorporated it in your  
23 pleadings.

24 MR. KNAPP: Now we are at a hearing where the  
25 facts relating to Mr. Crimmins, stated in the Report

1  
2 of Investigation, have now been referenced with re-  
3 spect to Mr. Crimmins' own sworn testimony in two  
4 interviews by the Exchange.

5 THE CHAIRMAN: That is in evidence and can be  
6 duly considered by this panel as it relates to the  
7 specified charges.

8 MR. KNAPP: This is what the Exchange relies on.  
9 It is now a matter of evidence, not a matter of  
10 pleading.

11 THE CHAIRMAN: That is in evidence. We are  
12 speaking of this report. It is not just facts,  
13 Sometimes it is conclusions.

14 MR. KNAPP: Which the panel is perfectly free  
15 to ignore and form their own conclusions, either  
16 agree or disagree with the Exchange. The facts under-  
17 lying the Report of Investigation stand at this point  
18 unchallenged. They are supported by evidence and  
19 records consisting primarily of Mr. Crimmins' own  
20 testimony. To make the panel's task simpler in  
21 evaluating those facts, we have gone to the time and  
22 trouble of preparing this chart which you have before  
23 you.

24 Before the panel decides that the Report of  
25 Investigation should or should not be admitted in

PAUL BRIDGMAN, C.S.R. -- INTERVIEW REPORTER -- October 7-1942

1  
2 evidence, let Mr. Crimmins' counsel go through items  
3 1 through 37 of the analysis, tell the panel and tell  
4 me where, in any respect, any of the facts stated  
5 there constituting a course of conduct are inaccurate  
6 or not buttressed by evidence, including Mr.  
7 Crimmins' own testimony.

8 The only way that the Report of Investigation  
9 can be excluded, in my view, is that Mr. Crimmins is  
10 now prepared to state he is repudiating his own  
11 prior testimony. Then we have to start from scratch,  
12 I agree. That testimony stands as an accurate,  
13 authenticated version.

14 THE CHAIRMAN: We are not talking about deny-  
15 ing Mr. Crimmins' testimony in evidence. It is  
16 in evidence. The weight it will be given is some-  
17 thing for us to determine later.

18 MR. KNAPP: And Mr. Crimmins' own testimony  
19 supports the facts stated in the report.

20 THE CHAIRMAN: Off the record a moment.

21 (Discussion off the record.)

22 THE CHAIRMAN: Gentlemen, we will recess at  
23 this time until 2:00 p.m. for lunch.

24 (Whereupon, at 12:45 p.m., a luncheon recess  
25 was taken to 2:00 p.m.)

PAUL FROMM, C.S.R. -- MANAGERIAL SERVICES -- 215-111-1111

## AFTERNOON SESSION

2:00 P. M.

THE CHAIRMAN: Back on the record, gentlemen.

The panel took the opportunity during the lunch hour to carefully consider the question as to whether to admit into evidence what has been marked as Exhibit 2 for identification, the Report of Investigation by the American Stock Exchange dated March 1, 1971.

It has determined, for a variety of reasons, not to admit that document into evidence, with this caveat: that this document is in the record of this proceeding as an attachment to the American Stock Exchange complaint. To the extent that it refers to matters directly relating to Mr. Crimmins, and to the extent that those areas are addressed by the respondent's answer -- in other words, this document does have certain elements of a pleading in this matter, inasmuch as it is attached to the complaint. However, to make it clear, it has not been admitted into evidence in these proceedings.

You may proceed, Mr. Knapp.

MR. KNAPP: With the exception of Exhibit 27, on which I think we are about to reach a stipulation,

PAUL FREEMAN, C.S.S. ... DEPUTY CLERK ... JURY 7-0011

1  
2 hundred thousand dollars.

3 MR. KNAPP: That is on unregistered stock.

4 THE CHAIRMAN: Is that a net profit figure?

5 MR. KNAPP: Yes.

6 THE CHAIRMAN: I think he is asking you to stipu-  
7 late that Mr. Crimmins made a net profit in trading  
8 transactions in his Four Seasons of \$396,862.50.

9 MR. BAB: There are a couple of problems with  
10 it. First of all we see trading. If we look at  
11 the schedule, I don't believe any stocks were sold  
12 by Mr. Crimmins which were not held for a minimum of  
13 six months. Is that the kind of trading we are  
14 talking of?

15 THE CHAIRMAN: I assume you mean open market  
16 transactions in Four Seasons securities?

17 MR. KNAPP: Correct, reflected in Exhibit 27, on  
18 the transcripts of Mr. Crimmins' accounts.

19 THE CHAIRMAN: Can that be so stipulated, and  
20 then we can receive Exhibit 33?

21 MR. BAB: If 33 goes in with the full details  
22 and the explanation, we have no objection to it.

23 THE CHAIRMAN: I propose we put Exhibit 33  
24 into evidence and we will also note that they have  
25 stipulated on the record that the profit on trans-

PAUL SCARBA, C.S.R. — ASSISTANT REPORTER — CASE 7-0012

1  
2 actions in Four Seasons -- and we are talking about  
3 open market transactions -- is \$396,862.50.

4 MR. KNAPP: I also ask for a stipulation on the  
5 profit Mr. Crimmins made on the sale of his 1500-  
6 share interest in Montgomery Company, on which he had  
7 a cost basis of \$3.33, which was sold in the November  
8 1968 secondary for \$58.50. I come up with \$83,750.  
9 If I am wrong, I would like to be corrected.

10 MR. BAB: We do not have that number. I don't  
11 see the materiality of it. All the evidence in  
12 this record is that Mr. Crimmins was a two-percent  
13 limited partner, the piece of paper we put in this  
14 morning, the letter to Mr. Lee.

15 He had nothing to do with investment decisions  
16 or, indeed, a decision to sell. Indeed, he objected  
17 when Montgomery was going to sell a portion. I don't  
18 see what it has to do with him.

19 MR. KNAPP: I think it is relevant as to the  
20 question of what his profit was.

21 THE CHAIRMAN: I am prone to take it into con-  
22 sideration, if it can be agreed upon. What weight  
23 it can be given, the panel will determine.

24 MR. KNAPP: This information was presented to  
25 the Exchange, indicating Mr. Crimmins had substantial

PAUL W. HENRY, Clerk -- SUBCOMMITTEE REPORT -- 10-1-72

1  
2 losses. In making that statement, certain profitable  
3 transactions were overlooked, including the 1500-  
4 share interest in Montgomery,

5 MR. BAB: Doing some quick arithmetic, I think  
6 the number should be \$82,500 because the \$58.50  
7 is the gross price, which included an underwriting  
8 commission.

9 MR. KNAPP: I will accept the figure of \$82,500.

10 THE CHAIRMAN: It will be stipulated on the  
11 record as Mr. Crimmins' net profit on the sale of  
12 his 1500-share interest in Montgomery Company.

13 MR. KNAPP: We can also stipulate that in the  
14 16-month period, covered from the time Four Seasons  
15 was listed until it was de-listed, the total com-  
16 missions just on Four Seasons were \$155,439. Correct  
17 me if Mr. Crimmins' participation was a lesser figure  
18 than that and I will accept it.

19 MR. BAB: This document is now in evidence, as  
20 I understand it, Exhibit 35. It sets out all the  
21 numbers as near as we can reconstruct them. It  
22 identifies them and puts them in context. We will  
23 stand on the document. I don't think I agree with  
24 his number. It was pulled out of context.

25 THE CHAIRMAN: Yes, the document is in evidence

PAUL McCORMACK, C.S.A. -- SENIOR STENOGRAPHER -- Docket 7-0132

1

2

and I think there was no objection by you.

3

MR. KNAPP: I did not introduce Exhibit 33.

4

5

THE CHAIRMAN: But you did not object. You voiced no objection to it being put in evidence.

6

MR. KNAPP: It was put in evidence by Mr. Bab.

7

8

9

THE CHAIRMAN: With the caveat you would get a stipulated record on the profit on open market transactions for Four Seasons, which you received. You also have a second stipulation as to the profit in the sale of his interest in Montgomery Company.

10

11

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MR. KNAPP: I don't think there is any harm in getting a stipulation on the record as to commissions. I want to make sure we are talking of not commissions and gross commissions.

16

17

18

19

THE CHAIRMAN: I do not have the exhibit before me. Does Exhibit 33 display gross commissions generated by Mr. Crummins in the sale of Four Seasons securities, purchases and sales?

20

21

22

MR. BAB: It has a total of net commissions on public transactions on the last page. The gross figure is \$210,000 and \$84,000 is the net.

23

24

25

THE CHAIRMAN: Is that the precise figure which was in your proposed exhibit, Mr. Knapp, \$84,100?

MR. KNAPP: Is that confined only to Four

1  
2 Seasons?

3 MR. BAB: Yes.

4 MR. KNAPP: Then I accept the \$84,100 as the  
5 net commissions on Four Seasons.

6 THE CHAIRMAN: As set forth in Exhibit 33?

7 MR. KNAPP: Under the circumstances, I with-  
8 draw Exhibit 34.

9 (The document referred to, heretofore marked  
10 Exchange Exhibit 34 for identification, was with-  
11 drawn.)

12 THE CHAIRMAN: Do you want what is now marked  
13 as Exhibit 33 marked as a joint exhibit?

14 MR. BAB: No, we don't care.

15 THE CHAIRMAN: That will be Exchange Exhibit  
16 33.

17 MR. KNAPP: I do not wish to offer it as an  
18 Exchange exhibit because there is other material  
19 in it by which I do not wish to be bound. The only  
20 thing I wanted to confine it to was the material which  
21 was just the subject of our stipulation.

22 THE CHAIRMAN: We will designate it as Respondent's  
23 Exhibit No. 5 and withdraw it as Exchange Exhibit 33.

24 (Document re commission figures for Mr. Crimmins,  
25 was withdrawn as Exchange Exhibit 33, was re-marked.

PAUL FREEMAN, C.S.R. -- SECRETARY REPORTER -- C.A.S. 7-6322

1  
2 as Respondent's Exhibit 6.

3 MR. BURNS: Respondent's Exhibit 6 for identifi-  
4 cation is a memorandum in support of dismissal of  
5 the charges by reason of the Exchange's failure to  
6 support them by adequate evidence.)

7 (The memorandum referred to was marked Respond-  
8 ent's Exhibit 6 for identification.)

9 THE CHAIRMAN: Mr. Bab, your motion is denied.  
10 I think the record is clear at this point, as prop-  
11 erly in the pleadings or in evidence, of the fact there  
12 has been no denial by Mr. Crimmins and that in fact  
13 on a certain date he participated in a transaction  
14 and financed the purchasing of Four Seasons securities.  
15 The question is whether that transaction was violative  
16 of Regulation "T."

17 There is no denial by Mr. Crimmins that he  
18 engaged in that financial transaction. It is a  
19 legal question as to whether this violates Regu-  
20 lation "T," and in that regard both of you have sub-  
21 mitted legal briefs on the point. The committee  
22 will try to reach a determination, because we do not  
23 have a factual dispute. We have whether the legal  
24 consequences of that transaction were in contravention  
25 of Regulation "T." We in fact may ask for more

1  
2  
3 legal discussion of both counsel on this point at  
4 a later time.

5 With respect to the purchase by Mr. Crimmins  
6 of unregistered stock of Four Seasons, that is not  
7 denied by him. It is not denied by him that it was  
8 effected off the American Stock Exchange.

9 The question is, was there a duty for Mr.  
10 Crimmins to report it to the Exchange? He admits he  
11 did not. The Exchange has stated that that violates  
12 a rule of the New York Stock Exchange.

13 We think the evidence in that regard is sufficient.  
14 There is enough on the record for the Panel to have  
15 something to consider.

16 Again, it is a question, perhaps, does this  
17 rule contemplate or does it certainly include all  
18 transactions or does it not apply to this type of  
19 transaction? You can argue as to what meaning of  
20 the rule is.

21 In so far as his participation in transactions  
22 in Four Seasons, his relationship with the company,  
23 certainly, without making any opinion as to whether  
24 it sustains the case, there is evidence before the  
25 panel now with respect to his testimony before the  
American Stock Exchange and other documents which are

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2 related to this. The weight we have not yet deter-  
3 mined, but they are in the record and will be  
4 examined, so we deem it appropriate that it is  
5 sufficient so that we will deny the motion to dis-  
6 miss.

7 MR. BAB: Assuming all you say, that goes to  
8 Regulation "T" and Rule 5, Charges 2 and 3. I re-  
9 spectfully urge at least, since these documents have  
10 just been put into evidence, that the panel read  
11 these documents against our memorandum. We just  
12 do not think they support any charges of violation  
13 on Charge 1. As to that issue at least, we ask you  
14 to dismiss. We are perfectly prepared to go for-  
15 ward on the Regulation "T" and the Rule 5. We will  
16 have some evidence on it.

17 THE CHAIRMAN: I am not precluding the fact that  
18 when the panel subsequently has an opportunity to  
19 read each and every one of the exhibits now in evi-  
20 dence, what conclusion it will reach. I am not  
21 forecasting what conclusion we will reach. At this  
22 time, we think there is sufficient evidence at least  
23 to cause us to proceed. We do not have grounds to  
24 immediately dismiss. --

25 MR. KNAPP: In this discourse on documents

PAUL FREEMAN, C.S.R. -- INTERVIEW NUMBER -- BULKY 7-5592

1  
2 contained in this memorandum, I wish to point out  
3 that the principal document is Mr. Crimmins' own  
4 testimony, 10-A and 10-B and the connecting exhibits.  
5 This memorandum does not deal with Mr. Crimmins' tes-  
6 timony. But the chart, pages 6 through 10, squarely  
7 deals with Mr. Crimmins' testimony as to the se-  
8 quence of events constituting the course of conduct,  
9 which is the heart of Charge 1.

10 THE CHAIRMAN: It is recognized. Because it  
11 struck this panel all the time that there is no  
12 factual dispute that this purchase of the unregistered  
13 stock was made by Mr. Crimmins. He has freely ad-  
14 mitted it was. It is the legal consequences of the  
15 transaction under Regulation "T," the legal conse-  
16 quences of the transaction not having been reported  
17 to the Exchange.

18 Certainly, from the onset of this proceeding,  
19 by the pleadings themselves, there has been no  
20 factual dispute that certain transactions occurred. It  
21 is the legal consequences which flowed out of it.

22 MR. DAB: We are talking primarily of Charge  
23 1.

24 THE CHAIRMAN: This is perhaps a more difficult  
25 one to characterize. Since there is evidence before

1  
2 us and the transcript of testimony where these  
3 very matters were discussed with Mr. Crimmins, there  
4 are admissions by Mr. Crimmins. Whether these ad-  
5 missions give rise to any violation of American  
6 Stock Exchange regulations is something we will  
7 later determine.

8 MR. BAE: We are prepared to go forward. I  
9 wish to say for the record that I do think we are  
10 being prejudiced in going forward at this point  
11 since we received only this morning this so-called  
12 roadmap which Mr. Knapp prepared, which apparently  
13 relates the documents to his charges or allegations.  
14 If we go forward now, it is in a sense blind. We  
15 are right back to the question of what kind of case  
16 we are dealing with.

17 THE CHAIRMAN: The road map is not in evidence.

18 MR. KNAPP: It is a road map.

19 MR. BAE: It is his statement of what materi-  
20 ality or relevance the documents have. Otherwise,  
21 we have 34 multiple exhibits. I suppose it is up to  
22 everyone here to try and make a determination --

23 THE CHAIRMAN: On final argument, both of you  
24 will be free to argue as to what evidence has been  
25 adduced at this proceeding, and to argue what

consequences, if any, should flow from it by this panel.

MR. BAB: In putting in a defense, we are not actually sure what we are defending against on Charge 1. Charges 2 and 3 are pretty clear. I don't know what in Charge 1 is intended to be a wrongful act, and I don't know to what extent the documents put in today are in support of any, if at all.

We think not any of the so-called wrongful allegations, if that's what they are. That is the heart of our problem. What are we defending against here?

THE CHAIRMAN: I think Charge No. 1 obviously must refer to the ingredients in the complaint. Perhaps, Mr. Knapp, you can help the panel in that regard. Does Charge 1, in essence, as laymen -- it alleges that Mr. Crimmins had a close relationship with this company and was active in its stock; and there is nothing per se illegal at all about that.

Is it the purport of Charge 1 that Mr. Crimmins obtained and utilized improperly insider information, material inside information?

MR. KNAPP: No, it is not the thrust of Charge 1, if you read the charge itself. The essence of

PAUL BRENNAN C.S.O. -- SEATTLE RECORDER -- JANUARY 7-1933

1  
2 Charge 1 is an undisclosed conflict of interest  
3 between Crimmins' personal interest, enhancing the  
4 value of his unregistered stock, under conditions where  
5 he was heavily indebted to the principals of Four  
6 Seasons. That created a conflict with his duty to the  
7 investing public, to his customers, and to the  
8 Exchange, to avoid, as an Exchange member and living  
9 up to Exchange standards, the appearance of action  
10 indicated or dictated by his own self-interest.

11 THE CHAIRMAN: May I add one caveat to that,  
12 because I want to ask you something about it. If  
13 that is so, for the sake of argument, would this  
14 have been a conflict of interest that perhaps from a  
15 legal standpoint could have been cured by disclosure?  
16 In other words, was it his failure to disclose his  
17 relationships and his ownership of stock, or was  
18 it the relationship itself, regardless of what extent  
19 of disclosure he might have made to customers or  
20 prospective customers?

21 MR. KNAPP: Let's get to the heart of it. The  
22 nature of the transaction and the non-disclosure was  
23 such that it really could never be disclosed for a  
24 number of reasons, including the following of why it  
25 could never been disclosed:

PAUL PROGRAM, CSE - DETERMINE REASONS - BANCORP 7-6222

Number 1, the arrangements were made prior to the November 26, 1963 underwriting listing Four Seasons on the stock exchange. If these were disclosed and Mr. Crimmins is not a stranger to the securities laws or stock exchange regulations -- it would have to be characterized as underwriter's compensation.

Second, Walston would have had to disclose it in all of its research bulletins, memoranda, stuff which went out to the public about Four Seasons.

THE CHAIRMAN: Had they disclosed the various transactions that are admitted by Mr. Crimmins, at least in purchasing the stock --

MR. KNAPP: This transaction could never have come about if he had disclosed it.

THE CHAIRMAN: Which transaction?

MR. KNAPP: The insider purchase from the three principals of Four Seasons. It could never have come about if there had been disclosure because the firm could no longer have acted as underwriters for Four Seasons if it had been apprised of this transaction.

MR. DAB: This isn't so. Montgomery Company and Walston had restricted stock in Four Seasons. They had it long before Crimmins did. I don't know

1  
2 what they are charging. That is the whole problem.

3 THE CHAIRMAN: Are you saying Walston would  
4 have been precluded from acting in an investment  
5 banking role had they found they had an employee who  
6 had made an investment in unregistered stock of the  
7 company?

8 MR. KNAPP: I don't think it was just the in-  
9 vestment in unregistered stock. If Mr. Crimmins had  
10 written out his check for the full purchase price  
11 against delivery of the stock, we might have had a  
12 different situation.

13 THE CHAIRMAN: That goes to the Regulation "T."

14 MR. KNAPP: No, it goes far beyond it.

15 THE CHAIRMAN: The fact he had not fully paid  
16 for it?

17 MR. KNAPP: At the time he got delivery of the  
18 first block of 10,000 shares, he had not paid a  
19 nickel on account of the purchase price. He paid  
20 50 percent of the purchase price approximately one  
21 month after he had gotten delivery of the stock.

22 Now, what is the relationship between a buyer  
23 and seller when somebody delivers 10,000 shares of  
24 stock with an ostensible value, based on the market  
25 at that time, of somewhere in the area of about

1  
2 \$500,000, where the purchaser does not put up a  
3 nickel? That is a very relevant consideration, I  
4 would think, to any member of the investing public  
5 in buying Four Seasons' stock.

6 The first purchase was supposed to have been  
7 consummated 50 percent in January, \$175,000, and  
8 50 percent six months later. The first half was  
9 paid approximately a month after the stock was de-  
10 livered to Mr. Crimmins.

11 How did he pay for the stock? He sold 4200 shares  
12 of Four Seasons, free stock, for \$500,000 and only  
13 used \$175,000 of it to make the first down-payment  
14 on the first block.

15 Before he had paid the balance on the first  
16 block, there was a tremendous surge of activity in  
17 Four Seasons' stock. Mr. Crimmins was extremely  
18 active, running around the country, visiting Mr.  
19 Clark, visiting other people in Four Seasons. News  
20 was coming out on a franchise program.

21 Before that was announced, lo and behold, Mr.  
22 Crimmins made arrangements to purchase another 10,000  
23 shares of unregistered stock.

24 THE CHAIRMAN: I am considering this as legal  
25 argument.

PAUL HODMAN, C.S.R. -- SUPERVISOR REPORTER -- 1/24/64 7-6632

1  
2 MR. KNAPP: That is factual.

3 THE CHAIRMAN: Are you saying that really the  
4 activities of Mr. Crimmins, most of which he freely  
5 admits, that he met with this company, he knew it  
6 well, and purchased unregistered stock, and later  
7 he found occasion to sell certain shares of stock --  
8 that just those activities per se, because of Walston's  
9 relationship and the fact that he may have customer  
10 dealings, was an unfair or inequitable type of con-  
11 duct to engage in, or those events created such a  
12 conflict of interest that it was improper for him  
13 to proceed?

14 MR. KNAPP: The charges are not based upon  
15 isolating and fragmenting it. I say that that trans-  
16 action, standing by itself, raised very serious ques-  
17 tions of propriety, just standing by itself. The  
18 charges are not based only on that. They are based  
19 upon a contemporaneous course of conduct, which are  
20 facts stated here, 1, 2, 3, 4, et cetera, in 37.

21 THE CHAIRMAN: I think, if I would read Charge  
22 1 and break it down, as I recall the testimony of  
23 Mr. Crimmins, he did have close relationships  
24 with individuals of Four Seasons. He has never denied  
25 it. He introduced it to institutional accounts, as

1  
2 I recall. He does not deny it. He opened and ser-  
3 viced brokerage accounts for principals of the firm.  
4 He hasn't denied it.

5 You correct me, counsel, but I am trying to  
6 characterize what I understand.

7 MR. KNAPP: Well, this is evidence.

8 THE CHAIRMAN: I just want to indicate I haven't  
9 necessarily reached that conclusion. He had  
10 assisted Four Seasons in financing. He had made this  
11 financial investment in the stock under the circum-  
12 stances where he did not pay anything down. He had  
13 made the transaction without reporting it to the Ex-  
14 change as an off-board transaction. There has been  
15 no denial of it.

16 The culmination of all these things I am relat-  
17 ing, as I recall everything I read here, other than  
18 maybe your characterizations to the degree he may  
19 have solicited people to buy the stock, as opposed  
20 to accepting unsolicited transactions from people,  
21 is basically admitted by Mr. Crimmins.

22 MR. KNAPP: There is no question of it.

23 THE CHAIRMAN: But it is the consequence or the  
24 legal ramifications of those facts which you feel  
25 give rise to a violation of Exchange regulations?

1  
2 MR. KNAPP: Precisely. There is nothing wrong  
3 with Mr. Crimmins playing golf with Mr. Clark.  
4 There is nothing wrong in him having a drink with  
5 him. However, taken in the situation of the con-  
6 text of constant solicitation of institutional  
7 investors, meetings of brokers and other people at  
8 which this very, very hot stock was discussed, you  
9 gentlemen cannot leave your common sense and experi-  
10 ence in the securities business outside the door  
11 here and come in here and not take cognizance of the  
12 facts of life, which give color to all of these cir-  
13 cumstances.

14 THE CHAIRMAN: As I understand it, perhaps disclo-  
15 sure of these -- let's say hypothetically, since I  
16 am not certain what is in the record -- that Mr.  
17 Crimmins did not advise each and every customer he  
18 spoke to that he owns so much stock:

19 "I know this company, and you know I have an  
20 account for several of their principal officers," or  
21 "Do you know I have introduced institutions to the  
22 Four Seasons' stock?"

23 Even had he disclosed that, the circumstances  
24 were such that it just wouldn't have cured it.

25 MR. KNAPP: Not in my view or the view of the

1  
2 Exchange. Of course, it never did happen. I  
3 think maybe the fundamental issue can be stated:  
4 Who was Mr. Crimmins working for? Was he working  
5 for Four Seasons or was he working in the interests  
6 of his customers?

7 THE CHAIRMAN: I deliberately added the in-  
8 sider aspect. I wanted to make clear, was there  
9 any such allegation?

10 MR. KNAPP: The charges do not depend upon  
11 the dissemination or misuse of inside information.  
12 As part of the pattern of conduct, however,  
13 access to inside information would seem to be  
14 very clearly indicated by the pattern of facts  
15 that are indicated in the roadmap.

16 THE CHAIRMAN: Mr. Bab, is that some assist-  
17 ance to you? That more fortifies my feeling that  
18 there is the allegation that there is sufficient  
19 evidence in the record for the panel to reach  
20 a determination, the transcripts of the testimony  
21 and the other various aspects. I think they cer-  
22 tainly bear evidence relating to these various  
23 relationships and transactions recited in specifi-  
24 cation 1.

25 MR. BAB: Let me see if I understand where we

PAUL FROMM, C.S.R. -- INTERVIEW REPORT -- BANCY 7-6232

1  
2 have arrived at. There is no allegation of the  
3 use of inside information?

4 THE CHAIRMAN: That is what I understood coun-  
5 sel to say.

6 MR. BAB: There is also no allegation here of  
7 non-disclosure, because indeed it is my recollec-  
8 tion that this question was never asked with re-  
9 spect to customers.

10 There is also, at page 16 of our response,  
11 an excerpt of the testimony that Mr. Cabell, the  
12 compliance officer of Walston, gave with respect  
13 to disclosure. I will read it. This is talking  
14 about the restricted stock purchased by Mr.  
15 Crimmins.

16 This is footnote 16. It is Mr. Cabell being  
17 asked by Mr. Zucker a question with regard to Mr.  
18 Crimmins' restricted stock purchase we are speaking  
19 of here.

20 "Mr. Zucker: Mr. Cabell, is this type of  
21 transaction something which would normally receive  
22 clearance, or you would want to clear it?

23 "Mr. Cabell: Not normally. This is a private  
24 matter between Mr. Crimmins and the parties he  
25 is dealing with.

1  
2 "Mr. Zucker: So your attitude would be that  
3 he was perfectly correct in not bringing this to  
4 the attention of Walston?

5 "Mr. Cabell: That's correct."

6 If the Walston compliance department took that  
7 position, I don't know what obligation Mr. Crimmins  
8 had.

9 THE CHAIRMAN: Well, it may be germane, for  
10 instance, in the private transaction that there  
11 has been no disclosure to the Exchange. It has  
12 been cited that no disclosure was made to the Ex-  
13 change or permission sought for an off-board trans-  
14 action. You can argue whether it is required or  
15 not.

16 The Exchange has charged that that failure  
17 constituted a violation of the Exchange.

18 Mr. H.B: There is another question here.  
19 Whether or not Rule 5 requires it, it has nothing  
20 to do with the disclosure of restricted stock. It  
21 has to do with retaining the depth and liquidity.

22 THE CHAIRMAN: It would have involved a dis-  
23 closure that he intended to make a transaction  
24 in Four Seasons securities off the floor of the  
25 American Stock Exchange. Obviously, before getting

PAUL FRIEDMAN, C.S.A. -- FINANCIAL REPORTER -- BUREAU 7-6732

1 permission, you have to describe what transaction  
2 you are getting permission to do.

3 MR. BAB: Are we back to the proposition that  
4 disclosure is an issue?

5 THE CHAIRMAN: For this panel. When you say  
6 there is absolutely no disclosure in any way in-  
7 volved in this case, if you are saying it as a  
8 complete generalization all the way through, I  
9 may not agree with you.

10 MR. BAB: In Charge 1, is there an allegation  
11 that we have to meet that Mr. Crimmins did some-  
12 thing wrong in not disclosing this transaction?  
13 I am not talking about the Regulation "T" or the  
14 Rule 5. I am talking of Charge 1. I am trying to  
15 understand what evidence we have to get to show  
16 this panel.

17 I thought we said, Mr. Knapp said, in response  
18 to our question, that disclosure was not really  
19 material because it wouldn't have cured the situation.

20 MR. SOUR: I have a question about Charge 1,  
21 just strictly with Charge 1. It is irrelevant  
22 whether it's letter stock or public stock as long  
23 as he has an interest, is that correct?

24 MR. KNAPP: Well, the fact that it was letter  
25

1  
2 stock, I submit, is far less material than the  
3 rather unusual credit terms extended.

4 MR. SOUR: I am speaking of Charge 1. Whether  
5 he has an interest in it in one way or another is  
6 irrelevant, as long as he has an interest?

7 MR. KNAPP: There is no question raised with  
8 respect to his holding of freely tradable stock.

9 MR. SOUR: Does it make any difference whether  
10 he has 10,000 shares which he bought on the Ex-  
11 change or 10,000 shares he bought from the prin-  
12 cipals?

13 MR. KNAPP: I can hardly answer it because we  
14 don't have any issue with respect to stock other than  
15 unregistered stock bought on these very unusual  
16 credit transactions. The question is a hypo-  
17 thetical one and I don't know the answer.

18 THE CHAIRMAN: Wholly apart from Regulation "T,"  
19 as far as the significance of that transaction, you  
20 are saying that wholly aside from Regulation "T,"  
21 the fact that he obtained a substantial block  
22 of stock from principals of an issuer without any  
23 consideration being paid whatsoever may be a  
24 material point?

25 MR. KNAPP: But the charges are not predicated

1  
2 on it. It could be standing by itself as a very  
3 material breach of ethical standards of an Exchange  
4 member.

5 THE CHAIRMAN: Wholly aside from Regulation  
6 "T"?

7 MR. KNAPP: Yes. The charges are not based  
8 solely on that transaction.

9 Now, if he had engaged in that transaction  
10 under circumstances where his firm was not Four  
11 Seasons' principal investment banker and under-  
12 writer and financial adviser, then we may have an  
13 entirely different set of facts and conclusions.  
14 This was under circumstances where he was aware  
15 in quite some detail of the special relationship  
16 of his firm with Four Seasons.

17 THE CHAIRMAN: The totality really of the  
18 events and circumstances and relationships  
19 described in specification or Charge 1?

20 MR. KNAPP: I don't want to be accused of in-  
21 jecting innuendo and all sorts of assumptions into  
22 this thing. We start out with the sequence of  
23 events here. Mr. Crimmins interposed himself with  
24 Mr. Clark, with the Teal Management and Fordham  
25 University.

1  
2 THE CHAIRMAN: I don't want the case argued  
3 now. It only came up that Mr. Bab felt, in con-  
4 nection with his motion to dismiss for failure of  
5 the Exchange to put sufficient evidence in order  
6 to defeat the motion on Charge 1, I want to say,  
7 both to Mr. Bab and yourself, that in my feeling  
8 there was sufficient evidence at this point to  
9 deny a motion to dismiss as to specification No.  
10 1. Many of the events and circumstances and rela-  
11 tionships recited in that charge are in the record  
12 at this moment in evidence. Whether they give  
13 rise to a violation is something the panel will  
14 ultimately decide.

15 MR. BERMAN: I have a question at this point.  
16 I don't know if it is applicable right now.

17 MR. KNAPP: Can anyone answer?

18 MR. BERMAN: Had Mr. Crimmins reported this  
19 purchase to the American Stock Exchange, the private  
20 transaction, to your knowledge, what reason would  
21 the Exchange have given to deny permission for that  
22 transaction? I can understand in my own mind what  
23 reasons they might have given for a denial of stock  
24 which was actively trading. They might have reason  
25 to do it. However, on a private transaction like

1  
2 would be the conclusion, then we will carefully  
3 consider everything and we will hear final argu-  
4 ments with respect to arguing what the impact of the  
5 evidence is.

6 MR. BAB: May we have a short recess in order  
7 to discuss that?

8 THE CHAIRMAN: Yes.

9 (Short recess taken.)

10 THE CHAIRMAN: While we have been off the  
11 record, we did happen to examine Exhibit 16-1,  
12 and I think that is the letter you were referring  
13 to, from Mr. Poser of the American Stock Exchange  
14 staff to Mr. Flaming. While certainly this letter,  
15 I think, is one that could well be argued with  
16 relationship to specification 1 of the charges,  
17 we do know that Mr. Poser makes no mention of Mr.  
18 Grinnins' personal investment in Four Seasons'  
19 stock.

20 It may be that Mr. Poser was aware of it and  
21 not concerned about it, or he knew nothing about it  
22 and would testify that had he known, he may have  
23 had an entirely different comment here.

24 That is why I am saying, yes, this is an exhibit  
25 which could well be argued by you in your particular

PAUL SMOGALA, C.S.E. -- PROSECUTOR -- Study 7-232

1  
2 case and we would certainly listen to the argument.  
3 However, standing alone -- I am just trying to  
4 cite one reason why I can sustain it. That is  
5 an important transaction in these proceedings,  
6 and Mr. Poser doesn't give any recognition that  
7 he was aware of it.

8 MR. KNAPP: I can cast light on it.

9 THE CHAIRMAN: Well, if we have any light  
10 now, it would be from Mr. Poser as to what he knew  
11 when he wrote the letter.

12 MR. KNAPP: It wasn't until November 25, 1969  
13 that the disclosure was made that Mr. Crimmins  
14 owned 30,000 --

15 THE CHAIRMAN: Your statement is not evidence.

16 MR. KNAPP: It is the statement of Mr. Crimmins,  
17 it is not my statement.

18 THE CHAIRMAN: Mr. Bob, I believe you wanted  
19 to say something.

20 MR. BAB: I will say this in response to the  
21 question raised before the recess. These documents  
22 have just come in. I think the panel hasn't had  
23 an opportunity to read them.

24 We have just received this morning Mr. Knapp's  
25 chart or roadmap as to the extent to which he

1  
2 believes these documents support the charges. We  
3 disagree. We think we have been put, frankly,  
4 at a very prejudicial position because the panel  
5 is ruling without reading the plaintiff's case.  
6 We must go forward blindly. Frankly, we are not  
7 in a position to play Russian roulette with our  
8 client.

9 THE CHAIRMAN: We are not ruling that the  
10 American Stock Exchange has sustained its case.  
11 We have ruled on the motion to dismiss. Is this  
12 enough now in the sense of a jury trial to take it  
13 to a jury? Are there enough issues or facts  
14 before us that you can get it to a jury? We are  
15 making the ruling in the same context.

16 MR. BAE: All I would submit is that we  
17 are saying, number one, without reading the docu-  
18 ments, I really don't see how the panel can come to  
19 a conclusion before weighing all the material.

20 Secondly, we have to go forward. I think it is  
21 fully recognized as to the position Mr. Crimmins is  
22 in. We are going ahead to a certain extent blindly.

23 I think that the discussion before the recess  
24 indicates we have to go ahead blindly with the  
25 defense, but we have no choice and we are prepared

PAUL FROMAN, CLERK -- SECRETARY DIRECTOR -- 6/10/64 7-5022

1  
2 to call Mr. Crimmins as a witness right now.

3 THE CHAIRMAN: I can see something on 1 and 2,  
4 and the question is, was the legal consequence  
5 of the activities fully admitted by Mr. Crimmins,  
6 as far as the transaction and the financing of it,  
7 and the fact that it was not conveyed to the  
8 American Stock Exchange, if that permission was  
9 ever required?

10 MR. BAB: That is Charge 2.

11 THE CHAIRMAN: Specification 1 has a series  
12 of relationships which, for the most part, Mr.  
13 Crimmins has not denied in his answer. It is  
14 whether the consequence or the characterization  
15 of all these things in totality give rise to a  
16 violation of the American Stock Exchange regu-  
17 lations. They, by alleging this charge, believe  
18 they do. It will be for this panel to determine  
19 whether we feel they give rise to a violation.

20 MR. BAB: Well, we are prepared to go forward  
21 with Mr. Crimmins, with that caveat.

22 F R A N K J. C R I M M I N S was called as a  
23 witness in his own behalf and, being first duly  
24 sworn, testified as follows:

25 DIRECT EXAMINATION

PAUL FROMPA, C.S.O. -- INTERVIEW REPORTER -- E-6632

1  
2 BY MR. EAB:

3 Q Mr. Crimmins, you have been here in this  
4 hearing and heard a lot of discussion about the Mont-  
5 gomery Company and the purchase of your restricted  
6 stock in Four Seasons Nursing. Would you just tell  
7 us how it came about that you made this purchase and  
8 the terms on which you did?

9 A Can I start from the very beginning with  
10 Montgomery Company?

11 Q Yes.

12 A Approximately in July of 1967, Montgomery  
13 Company was formed and a substantial list of partners  
14 were invited to join Montgomery Company and make an  
15 investment in Four Seasons Nursing Centers of America  
16 letter stock, which we purchased on credit.

17 It was all arranged by the treasurer of  
18 Walston & Company, and my two-percent ownership of Mont-  
19 gomery Company entitled me to three thousand shares of  
20 stock, of which I put up three thousand dollars and  
21 Montgomery Company arranged the financing of the balance  
22 through the First National City Bank. Again, I was  
23 managing the Sperry Rand office at 52nd Street.

24 Going forth from September of 1967, the com-  
25 pany went public in May of 1968. I had started doing

PAUL CRIMMINS, C.S.P. — STRUCTURE REPORT — F.A.C. 1-5922

1  
2 a tremendous amount of research on the industry  
3 in general, starting with July of 1967 and  
4 henceforth, and I was quite enthusiastic about the  
5 prospect of the industry and this particular com-  
6 pany. Based on the audited reports furnished, the  
7 company had put together quite an impressive  
8 record. I bought stock, regular marketable stock  
9 in, I believe, May of 1968.

10 At the request of Mr. McCollum, I took one  
11 of our analysts, who worked on special situations,  
12 out to Oklahoma City to visit the actual facilities  
13 in June of 1968. We both were tremendously im-  
14 pressed with the facilities themselves and the  
15 people. When I came back, I believe I bought a  
16 few hundred shares more of the stock myself.

17 The word came to me somewhere in the fall --  
18 I guess approximately October of 1968 -- that Mont-  
19 gomery Company was going to sell half of its  
20 position.

21 Q Go back a little bit in the summer, when you  
22 got back. Did you make any efforts to purchase any more  
23 restricted stock of Four Seasons?

24 A The summer of 1968? I don't believe so.

25 Q Did you have any discussion with Mr. Al

PAUL FRISMAN, C.S.A. -- STRUCTURAL RESEARCH -- BARRY 7-6932

1  
2 Rauschman?

3 A Yes.

4 Q Tell us who he is.

5 A I hope you will forgive me. This is quite a  
6 period of time going back. Al Rauschman, who was the  
7 head of our legal department on compliance, also was  
8 a partner of Montgomery Company. He owned, I believe,  
9 an equivalent number of shares in the unregistered long-  
10 term securities as I did.

11 I was quite bullish on the prospects of  
12 the company. I talked to Al about possibly buying  
13 his latter stock from him. I believe the price at that  
14 time was around \$35 a share. It never came to pass,  
15 but I do recall the conversation. I would state that  
16 I think Mr. Rauschman would recall the conversation if  
17 the question were requested of him.

18 Anyhow, that transaction didn't transpire.  
19 Going into the fall of 1968, when I got word of the  
20 fact that Montgomery was going to sell half of its  
21 position, I evidenced my displeasure to Bill Fleming  
22 that I didn't want to see half of the stock sold. I  
23 was interested in building a position and not cutting  
24 it in half.

25 It came to me that this was a joint decision

1 reached by the people who ran the Montgomery group.  
2 Again, I had no part in the formulation of Walston's  
3 policies or the Montgomery Company. Basically, I  
4 was unhappy about the fact that I would see my position  
5 cut in half.  
6

7 I had dinner with Mr. Clark, his wife, Mr.  
8 Gray, Mr. McCollum, and six or seven people in New  
9 York, somewhere around the end of October, the begin-  
10 ning of November. I told him of my interest in the  
11 long-term future of the company and the industry. I  
12 said I would like to buy some letter stock. "If you  
13 and your partners would be interested in selling any  
14 stock, I would be interested in buying."

15 THE CHAIRMAN: Can you identify those gentle-  
16 men for the record? I think it would be helpful  
17 to know who those gentlemen are you just described.

18 THE WITNESS: Mr. Clark was president of the  
19 company.

20 Q Which company?

21 A Four Seasons Nursing Centers of America.

22 Mr. Gray, I believe, was vice president of the company;  
23 Mr. McCollum was a partner of Walston. Ann Clark was  
24 the wife of the president. Mrs. Gray was there, as I  
25 recall. She is Mr. Gray's wife. I can't recall anybody

PAUL FROMAN, C.R.R. -- DIRECTOR REPORTER -- DATED 7-20-62

1  
2 else.

3 Q When you say Mr. McCollum was a partner in  
4 Walston, can you tell us what position he held?

5 A He worked in Chicago under Glen Miller, and that  
6 is where our corporate finance department was located.

7 Q Was he a superior of yours at Walston?

8 A I don't know if you would call him a superior,  
9 but in his area specifically, he was in private place-  
10 ments. It had nothing to do with the handling of individual  
11 accounts, and 95 percent of my business was in the hand-  
12 ling of retail accounts and managing the branch office at  
13 52nd Street. Mr. McCollum spent most of his time in  
14 working with insurance companies and the handling of  
15 private placements.

16 I asked Mr. Clark if he would check. Mr. Bouse  
17 was not at this meeting. If they would be interested in  
18 selling some stock, I would be interested in buying. It  
19 was entirely in their province if they cared to sell any  
20 stock.

21 The stock was selling around \$50 a share. I said  
22 a normal discount for long-term unregistered securities  
23 is roughly 30 percent. In some cases it even runs  
24 higher than that in Wall Street. The stock was 50.

25 We took a \$15 discount off the then going price.

PAUL FRICHA, CSR. — MEMORANDUM — 5/10/77 7-5022

1 and arrived at a price of \$35 a share for 10,000 shares.  
2 Each one of these three gentlemen agreed to sell approxi-  
3 mately the same number of shares: 3,334, I think, Mr.  
4 Clark, Mr. Gray and Mr. Bouse.  
5

6 The credit terms set up were set up by their  
7 lawyers, not by myself. I received correspondence sub-  
8 sequent to this from Jack Andrews, who was the director  
9 of the company, but, more important, he was outside  
10 counsel to the company. Pursuant to those instructions  
11 on credit arrangements, naturally, I followed the terms.  
12

13 What I did basically was sell my long-term  
14 position in marketable securities, which I had bought  
15 in May. I sold those out, I believe, the following  
16 February and paid the initial payment I was required to  
17 pay of \$175,000 when I received the check in March of  
18 1969.

19 I also gave Mr. Clark -- I told him I was in-  
20 terested in building a position in the stock. At that  
21 time, it was a little different marketplace and we were  
22 all enjoying something different. Business was quite  
23 brisk in most securities.

24 I negotiated with Mr. Clark to buy some more  
25 stock. I said I would like to buy an additional block.  
At that time, I gave him a down-payment of \$50,000.

PAUL PROBYA, C.S.R. -- INTERVIEW DATED -- MARCH 1-1982

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THE CHAIRMAN: Can you identify the date?

THE WITNESS: Approximately the end of March, 1969. Subsequent to that, I got correspondence from his counsel again, outlining the credit terms that they had requested, and this time they said they wanted to keep the stock in the attorney's office as collateral, and stipulated there would be a six-percent interest charge on the second block of stock, which I didn't object to.

This is something which is very paramount. I did not set these credit terms or arrangements. They were established by counsel for these three gentlemen.

Then I gave them \$175,000, the three gentlemen, in January of 1970, for a total investment on my part of \$405,000.

MR. DAB: At the door is Mr. Reuschman, who will be our next witness. Is it all right for him to stay in the room until he is called?

THE CHAIRMAN: There is a question of sequestering witnesses. We will call him at such time as you have completed your testimony. Do you wish to put him on immediately and recall Mr. Crimmins?

MR. DAB: How long do you plan to run this

1  
2 afternoon, so we can perhaps plan it?

3 THE CHAIRMAN: Our thought was we would prob-  
4 ably recess at five o'clock.

5 MR. EAB: Perhaps we can finish this segment  
6 with Mr. Crimmins and then put Mr. Rauschman on,  
7 if that is satisfactory.

8 THE CHAIRMAN: Yes.

9 MR. EAB: Mr. Mac, on Respondent's Exhibit 5,  
10 our schedule of the profits and losses, on page  
11 two to that exhibit, the actual dates and places  
12 and payments of this restricted stock are set forth  
13 precisely. Perhaps the panel wishes to look at it  
14 in connection with this testimony.

15 THE CHAIRMAN: If you have extra copies, I would  
16 appreciate it, because I will have some questions on  
17 it.

18 MR. EAB: We do have four extra copies of them.  
19 We are referring to page 2 of the exhibit.

20 BY MR. EAB:

21 Q Will you continue.

22 A In what particular?

23 Q What next happened in connection with the re-  
24 stricted stock? Did you make any other payments?

25 A I gave a check, the total of which was \$175,000,

PAUL FROMAN, C.S.R. -- JUDICIAL REPORTER -- Docket 7-6932

1  
2 in January of 1970.

3 Q Do you know the total amount you paid on the  
4 restricted stock?

5 A I believe it was \$405,000.

6 Q And what happened to that investment?

7 A The stock is worthless today.

8 Q Could you tell us whether or not you viewed  
9 your purchase of the restricted stock, your purchase, as  
10 being any different than the purchase Montgomery made  
11 earlier of the restricted Four Seasons stock?

12 A None whatsoever.

13 Q Can you tell us briefly why?

14 A Again, I had bought letter stock. I had owned  
15 my first letter stock purchase by Montgomery in Four  
16 Seasons Nursing Centers, through Montgomery Company dat-  
17 ing back to July of 1967, which I had bought on credit.  
18 To me, there wasn't anything different or out of the or-  
19 dinary from what I had done back in July of 1967, when  
20 I bought the stock in early November of 1968 and again  
21 in March of 1969.

22 MR. EAB: This is a good place to break off  
23 and I can put Mr. Rauschman on, if I may, unless the  
24 panel would like to ask Mr. Crimmins any questions.

25 THE CHAIRMAN: If he comes back in, will you

PAUL BRAMM, C.S.R. -- DIRECTIVE REPORTER -- CASE 7-0312

1  
2 stop for counsel to have cross examination?

3 MR. EAB: No, we will finish our direct of  
4 Mr. Crimmins.

5 THE CHAIRMAN: Is Mr. Rauschman's testimony  
6 going to be brief?

7 MR. EAB: Yes.

8 THE CHAIRMAN: Do you have any objection?

9 MR. KNAPP: I will agree with whatever the  
10 panel wishes.

11 THE CHAIRMAN: Then suppose we bring in Mr.  
12 Rauschman.

13 (Witness temporarily excused.)

14 A L F R E D J. R A U S C H M A N was called as a  
15 witness on behalf of the respondent and, being first  
16 duly sworn, testified as follows:

17 DIRECT EXAMINATION

18 BY MR. EAB:

19 Q Mr. Rauschman, would you just state for the  
20 record your name and present place of employment?

21 A Alfred J. Rauschman, vice president, Reynolds  
22 Securities, Inc.

23 Q Can you tell us where you were employed during  
24 the period 1963 and up until the end of February 1969?

25 A I was at Walston & Co., Inc.

PAUL FREEMAN, C.S.P. — STENOGRAPHIC REPORTER — DASHLEY 7-6332

1

2

Q And what was your job?

3

A I was vice president, director of compliance.

4

Q Did you know Frank Crimmins, the respondent

5

here?

6

A Yes.

7

Q Can you tell us whether or not Frank Crimmins

8

had any role in the management or compliance programs

9

of Walston?

10

A No, Frank Crimmins was a branch manager of our

11

branch on Sixth Avenue, the Sperry Rand building.

12

Q Were you a limited partner in Montgomery &

13

Company?

14

A Yes, I was a limited partner of Montgomery.

15

Q Did you have any part in making the investment

16

decisions for Montgomery?

17

A No.

18

Q Do you know whether or not Frank Crimmins did?

19

A Yes, I know.

20

Q And what is your answer?

21

A He didn't make them.

22

Q Do you recall a time in 1958 when Mr. Crimmins

23

approached you with respect to the possibility of pur-

24

chasing restricted Four Seasons stock that you owned

25

through Montgomery?

1

2

A Yes, as a matter of fact, I do.

3

Q Can you tell us generally what happened?

4

A I don't remember whether I called Frank or Frank called me. However, as a limited partner of Montgomery I was very restive. I had become a partner in late 1967 and the partnership acquired a convertible note of Four Seasons, which was later converted into common stock at three dollars per share, and I saw the stock go public and rise, I think, to about \$30 per share. I don't think I had ever bought anything which went from 3 to 30 before and I wanted out of the partnership.

14

15

16

17

18

I was talking to Frank about it. I think Frank said he was prepared to buy my interest in Montgomery, which at that time Montgomery just owned Four Seasons. I think it was before the purchase of the International Funeral.

19

20

21

Q That purchase was never effected, was it?

A No, it was not. I think Fleming put the kibosh on it, happily so for me.

22

23

24

25

Q Prior to the hearing today, did I furnish you with a copy of the charges filed by the staff against Mr. Crimmins? That is the date of November 21, 1971.

A I don't remember.

1  
2 Q I gave you this response?

3 A Yes.

4 Q And did you read in there about a Rule 5  
5 violation or allegation of a Rule 5 violation?

6 A Yes.

7 Q In your experience, Mr. Rauschman, did you  
8 view Rule 5 of the American Stock Exchange, or Rule 394  
9 of the New York Stock Exchange, as applicable to re-  
10 stricted stock purchases?

11 A No.

12 MR. KNAPP: I must move to object to the line  
13 of questioning and I ask that the answer be stricken.  
14 I don't think Mr. Rauschman is qualified as an  
15 expert. This is legal argument. I thought he  
16 was here just as a witness on the facts.

17 THE CLERK: I happen to be personally  
18 acquainted with his professional qualifications,  
19 Mr. Knapp, and he is indeed qualified to speak on  
20 it. I think he has had responsible regulatory,  
21 compliance jobs in Wall Street, from my own per-  
22 sonal knowledge, where he would have prescribed  
23 procedures and indeed given legal advice to  
24 members at Walston and other places.

25 MR. KNAPP: As long as we understand it is

PAUL FROWN, C.S.R. -- NEW YORK REPORTER -- 2/24/72 7-1732

1  
2 opinion and not testimony.

3 THE CHAIRMAN: I say quite candidly that I have  
4 known Mr. Rauschman for some 15 or 17 years pro-  
5 fessionally. I was with the Securities & Exchange  
6 Commission and with industry. I think his testimony  
7 was that at the time he was director of compliance.

8 MR. BAB: Yes, that is the basis for the ques-  
9 tion.

10 THE CHAIRMAN: Certainly, he should have been  
11 in a position to know or be able to give his  
12 opinion. You may proceed.

13 BY MR. BAB:

14 Q To your knowledge, did Halston or its compli-  
15 ance department ever issue any instructions, written or  
16 otherwise, to its employees that purchases of restricted  
17 stock should be submitted to the Board of Governors  
18 of either Exchange under Rules 5 or 394?

19 A No, it did not.

20 Q Did you also read about the allegations regard-  
21 ing the violation of Regulation "T," the margin require-  
22 ments, in connection with the purchase of restricted  
23 stock?

24 A Yes, I did.

25 Q Can you give us your opinion whether, on the

PAUL FROMAN, CLEO -- SHAW-WAT WOODMAN -- BLACKY 7-1932

1 facts of this matter, namely, the purchase by Mr. Crim-  
2 mins of restricted stock from officers of a corporation,  
3 where the purchase was not over the Exchange, but it  
4 was a purchase of restricted stock, restricted against  
5 transfer, it was not purchased through Mr. Crimmins'  
6 account with Walston, or indeed any account at Walston  
7 or any other member firm, and where the sellers and the  
8 buyers were all sophisticated investors -- can you tell  
9 us whether, in your opinion, Regulation "T" would apply  
10 to that transaction?  
11

12 A In my opinion, Regulation "T" would not apply  
13 to such a transaction.

14 Q I suppose it follows if Mr. Crimmins or any  
15 other employee of Walston had come to you with that set  
16 of facts and asked whether anything further need be  
17 done, would you have prohibited the transaction on the  
18 basis of Regulation "T" or directed them not to com-  
19 plete the transaction?

20 A I can't imagine that I would, no.

21 Q To your knowledge during the relevant period,  
22 meaning up until you left Walston in February of 1969,  
23 did Walston have any rule against a registered represen-  
24 tative, such as Mr. Crimmins, buying securities from any  
25 investment banking client of Walston?

PAUL FROMM, C.S.R. --- STENOGRAPHIC REPORTER --- RANDOLPH 7-0932

1  
2 A No, we had no such rule.

3 Q Directing your attention to the early part  
4 of 1969, did there ever come to your attention, in your  
5 capacity as compliance officer of Walston, any inquiries  
6 from the American Stock Exchange concerning solicitation  
7 by Walston or its employees of transactions in Four  
8 Seasons' stock?

9 A Yes. I did receive an inquiry from a staff  
10 member of the American Stock Exchange in January of  
11 1969 about the amount of trading which Walston & Com-  
12 pany, as a firm, was doing in Four Seasons. I believe  
13 the inquiry specifically directed itself to the amount  
14 of trading which James Nissan, one of the Walston  
15 account executives, was doing for customers of his.

16 Q Mr. Rauschman, I hand you a document which  
17 purports to be a memorandum dated January 15, 1969,  
18 from A. J. Rauschman, legal department, and I ask you  
19 whether you can identify this document?

20 A Yes, it appears to be a memorandum I wrote for  
21 the files of Walston.

22 Q And is that with reference to the matter you  
23 have just discussed, the inquiry regarding Mr. Nissan?

24 A Yes.

25 THE CHAIRMAN: Let us have it marked for iden-

1  
2 tification.

3 MR. EAB: I don't know if it is in already.

4 THE CHAIRMAN: Let's mark it for identification  
5 initially.

6 MR. KNAPP: I believe it is an Exchange exhibit  
7 already, Mr. Chairman.

8 MR. EAB: I understand it is Exhibit 16-C of  
9 the Exchange.

10 MR. KNAPP: Yes, it is part of Exhibit 16.

11 BY MR. EAB:

12 Q In connection with the inquiry regarding Mr.  
13 Nissan, did you also have a discussion with Mr. Crimmins  
14 relating to Four Seasons' stock?

15 A Yes, I think after discussing the matter with  
16 Mr. Fleming, we determined to ask all the larger pro-  
17 ducers who were doing a significant business in Four  
18 Seasons to confine their customer transactions to un-  
19 solicited cases.

20 Q Do you know whether or not Mr. Crimmins was the  
21 largest producer in Four Seasons at Walston?

22 A I don't think he was, but I don't know.

23 Q But the inquiry from the Amer came with respect  
24 to Mr. Nissan?

25 A That is my recollection, yes.

PAUL FREEMAN, CSM - DIRECTOR READER - BARRY 7-6932

1

2

Q And that is what this memo says?

3

A Yes.

4

5

6

Q Do you know whether or not the instructions given in January of 1969, with respect to solicitation in Four Seasons' stock, were altered by Walston?

7

A I don't know.

8

9

10

11

12

13

Q In the course of your duties as head of the compliance department at Walston, and directing your attention to January 1969, did you ever have a conversation with Mr. Crimmins concerning an announcement which had been made of a 2-for-1 stock split by Four Seasons?

14

A Yes.

15

16

Q And can you tell us, in substance, what the conversation was about?

17

18

19

20

21

22

23

A I received a call from a staff member of the American Stock Exchange, asking me if I could determine or if I knew whether Mr. Crimmins had advance knowledge of the 2-for-1 stock split and relating a hypothesis that Mr. Crimmins -- that the American Exchange, at any rate, believed Mr. Crimmins had received such information, and could I determine the facts and let them know.

24

25

I called Mr. Crimmins subsequently and I asked him about it. Mr. Crimmins told me he did not know

PAUL FROMAN, C.S.R. -- INTERVIEW REPORTER -- BANCROFT 7-6732

1 about the stock being split before the announcement,  
2 which had just been a day or two previously, but he had  
3 received a call from an official of Four Seasons -- I  
4 think it may have been Mr. Clark -- and he was asked by  
5 Mr. Clark to contact one or two of his larger cus-  
6 tomers -- that is, large investors in Four Seasons --  
7 to determine what their view would be if a split took  
8 place, whether they would be in favor of a split, that  
9 sort of thing.  
10

11 Frank told me he had called a couple of people  
12 and asked them, had gotten a response and had reported  
13 it back to Clark. That was the last he had heard of  
14 the subject until he saw the announcement on the broad  
15 tape.

16 Q I hand you a document on a Walston & Co. letter-  
17 head, from A. J. Rauschman, legal department, dated  
18 January 3, 1969, and I ask you if you can identify it?

19 A It appears to be a memorandum which I wrote to  
20 the file on January 8, 1969, with copies to Mr. Fleming  
21 and Mr. Miller.

22 Q And does that relate to the discussion concern-  
23 ing the 2-for-1 stock split?

24 A Yes.

25 MR. BAB: I offer this memorandum as Respondent's

1  
2 Exhibit 7.

3 MR. BURNS: Respondent's 7 is an interoffice  
4 memo of Walston & Company, from Mr. Rauschman,  
5 dated January 8, 1969, regarding Four Seasons.

6 THE CHAIRMAN: Is there any objection, Mr.  
7 Knapp? The document will be marked for identifi-  
8 cation as Respondent's Exhibit 7.

9 (The memo referred to was marked Respondent's  
10 Exhibit 7 for identification.)

11 MR. KNAPP: I will object, except with the  
12 observation that this does not concern any per-  
13 sonal knowledge by Mr. Rauschman of what Mr.  
14 Crimmins discussed with Mr. Clark about the split.  
15 All it is is an explanation by Mr. Crimmins given  
16 to Mr. Rauschman.

17 THE CHAIRMAN: It will be received in evi-  
18 dence as Respondent's Exhibit No. 7.

19 (The memo, heretofore marked Respondent's  
20 Exhibit 7 for identification, was received in  
21 evidence.)

22 BY MR. EAB:

23 Q Mr. Rauschman, based on your discussion with  
24 Mr. Crimmins, did you have an opinion as to whether or  
25 not Mr. Crimmins was in possession of material inside

1  
2 information concerning Four Seasons?

3 A I believed he was not in possession of such  
4 inside information.

5 Q Do you know whether or not the information  
6 reflected in Respondent's Exhibit 7, or the basis of  
7 your discussion with Mr. Crimmins, was ever conveyed  
8 to the American Stock Exchange?

9 A Yes, it was, by me.

10 Q And can you tell us what you advised the stock  
11 exchange?

12 A I repeated what Mr. Crimmins had told me.

13 Q Was there any discussion with the stock exchange  
14 as to whether or not that constituted possession of  
15 inside information?

16 A No.

17 Q Did the Walston compliance department have a  
18 system for reviewing daily trades during the period up  
19 until 1969?

20 A Yes.

21 Q And did your duties include reviewing the  
22 daily runs of trades?

23 A No, except as to Four Seasons.

24 Q Can you tell us why you looked at Four Seasons?

25 A Well, after the conversation I had had with

1  
2 Bill Fleming about the Exchange's concern about Four  
3 Seasons, I took it upon myself to each day create a log  
4 of all transactions in Four Seasons and to make tele-  
5 phone calls to determine if those transactions were  
6 indeed unsolicited.

7 Q On the basis of your log and your telephone  
8 inquiries and during the period you were still at  
9 Walston, did any problem relating to Mr. Crimmins'  
10 transactions in Four Seasons come to your attention,  
11 other than those two matters we have just spoken of?

12 A No, I have no recollection of any problem.

13 MR. EAB: I have no further questions.

14 THE CHAIRMAN: Mr. Knapp.

15 CROSS EXAMINATION

16 BY MR. KNAPP:

17 Q As a partner in Montgomery Company, would  
18 you have personal knowledge as to whether or not the  
19 Montgomery position interest and that of the Walston  
20 partners was publicly disclosed?

21 MR. EAB: At what time?

22 Q Well, specifically, it was disclosed on May  
23 8, 1969, in a Four Seasons prospectus, which is  
24 Exchange Exhibit 18. I refer you to page 18. Would  
25 that refresh your recollection, Mr. Rauschman?

1  
2 A I have no independent recollection, but, of  
3 course, I was aware that the prospectus made certain  
4 disclosures.

5 Q With respect to Montgomery Company's hold-  
6 ings in Four Seasons?

7 MR. EAB: I think this is going far afield,  
8 first, of the direct examination. Second, I under-  
9 stood Mr. Knapp to say before the disclosure was  
10 not really in issue here.

11 THE CHAIRMAN: He put him on as compliance  
12 manager. He mentioned certain Walston policies  
13 and procedures. We will permit the line of  
14 questioning.

15 A What was your question?

16 Q Based upon your review of Exhibit 18, which  
17 is a May 2, 1968 prospectus, would you say there was  
18 public disclosure of Montgomery Company's interest in  
19 Four Seasons?

20 A Shall I read it?

21 Q If you wish. The question is, would you say,  
22 in your opinion as an experienced compliance lawyer,  
23 that there was public disclosure of Montgomery Company's  
24 interest in Four Seasons?

25 A In this paragraph?

1

2

Q Yes.

3

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6

A As I read this paragraph, it describes various transactions between various people, including Walston and Montgomery Company and Gordon McCollum and other people.

7

8

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10

11

Q Would you say the same about Exhibit 19, Four Seasons' prospectus of November 26, 1968, with respect to the holdings of Montgomery Company and the portion of its holdings which were being sold in connection with this offering?

12

13

A It appears to describe the amount of shares owned by the Montgomery Company, yes.

14

15

Q And does the prospectus also indicate the number of shares being sold by Montgomery Company?

16

A Yes, 75,000 shares.

17

18

19

20

21

22

Q With respect to the borrowing to finance the purchase by the limited partners of Montgomery Company, which Mr. Grifone indicated was 70 percent of the purchase price, was this borrowing effected from a third-party lender, to wit, a bank, to the best of your recollection?

23

24

A As I remember, I signed a personal note to the First National City Bank for \$3500.

25

Q If you refresh your recollection, perhaps the

1  
2 note was for \$5500, with \$3500 in cash?

3 A My note or somebody else's note?

4 Q The purchase price of your interest in Mont-  
5 gomery Company. Was it \$10,000?

6 A I think it was \$5000. I was a one-percent  
7 partner.

8 Q And \$3500 was your borrowing?

9 A That is my recollection.

10 Q When Mr. Crimmins came to you in 1968, to pur-  
11 chase your interest in Montgomery Company, did he  
12 tell you he was contemplating a purchase of restricted  
13 stock from the management of Four Seasons?

14 MR. EAB: I will object. There is no  
15 indication there was ever even such contemplation.  
16 It is six months before the discussion.

17 THE CHAIRMAN: We will permit the question.

18 A I don't remember any such disclosure.

19 Q At any subsequent time between the middle  
20 of 1968 and November 1969, did Mr. Crimmins indicate  
21 to you that he had purchased or was interested in  
22 purchasing shares of restricted stock from the prin-  
23 cipal officers of Four Seasons Nursing Centers?

24 MR. EAB: In all fairness, I think Mr. Rausch-  
25 man left Walston in February of 1969.

PAUL PERMAN, C.S.R. -- DIRECTOR REPORTER -- BANCROFT 7-0732

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THE CHAIRMAN: If he doesn't know, he can so state.

Q Did Mr. Crimmins ever indicate to you he was interested in or had purchased shares of unregistered stock of Four Seasons from the company's principal officers?

A No, sir, not that I remember.

Q Just to be sure, you left Walston in early 1969?

A February 22, 1969.

Q Have you remained in contact with Mr. Crimmins subsequent to February 1969?

A I don't think I spoke with Mr. Crimmins for years after I left, until earlier this year.

Q At least until February 1969, you had no knowledge that Mr. Crimmins had purchased stock of Four Seasons from insiders?

A I don't remember having such knowledge.

Q In connection with the inquiry initiated by the Exchange concerning the 2-for-1 stock split in Four Seasons, as I understand your testimony, you called Mr. Crimmins to obtain his version of his conversations with Mr. Clark, is that correct?

A Yes, sir.

PAUL FREEMAN, C.S.E. -- SIMS/STP REWATER -- 2-20-69 7-3532

1  
2 Q Did you inquire of any other persons in  
3 Walston whether they had advance knowledge of the 2-  
4 for-1 stock split?

5 A I don't remember. I remember I was directed  
6 by the Exchange to ask Mr. Crimmins, which I did.

7 Q So far as you know, Mr. Crimmins was the  
8 only person you had interviewed concerning the 2-for-1  
9 stock split?

10 A No, I think I also had a conversation with  
11 Glen Miller about that time.

12 Q Coming back only to Mr. Crimmins, do I under-  
13 stand you correctly that Mr. Crimmins told you that Mr.  
14 Clark, the president of Four Seasons, had addressed  
15 an inquiry asking Mr. Crimmins' opinion as to whether  
16 the stock should be split? Is that the fair substance  
17 of what Mr. Crimmins told you?

18 A No, sir. What I remember is that Mr. Clark  
19 was interested, according to Mr. Crimmins, in the  
20 opinion of some of Mr. Crimmins' customers, not Mr.  
21 Crimmins.

22 Q But he voiced this request of Mr. Crimmins,  
23 that Mr. Crimmins canvass his customers to get their  
24 views about a 2-for-1 stock split?

25 A That was my understanding.

PAUL FROMM, C.S.R. -- STENOGRAPHIC REPORTER -- Docket 7-6931

1  
2 Q And Mr. Crimmins told you he reported back  
3 to Mr. Clark as to the views of his customers whom he had  
4 canvassed?

5 A Yes, sir, that is what I remember.

6 Q Did he tell you what his customers stated?

7 A I think he did, but I don't remember what it  
8 was.

9 Q Did he tell you what he then told Mr. Clark,  
10 in words or substance?

11 A If he did, I don't remember. All I remember is  
12 specifically that Mr. Crimmins called Mr. Clark back and  
13 gave him whatever he had learned.

14 Q And did Mr. Crimmins tell you what he had  
15 learned?

16 A He may have; I don't remember.

17 MR. KAPP: I have no further questions.

18 THE CHAIRMAN: I think you stated that when  
19 you had a conversation with Mr. Crimmins, I believe  
20 in 1963, about his possibility of buying your  
21 Four Seasons' stock from the Montgomery partnership,  
22 that Mr. Bill Fleming put the kibosh on it, as you  
23 described it. What reasons did he advance for put-  
24 ting the so-called kibosh on the transaction?

25 THE WITNESS: The percentage of Montgomery  
PAUL BRADY, C.S.R. -- MEMPHIS REPORTER -- 244-7-6212

1  
2 Company owned by the various individuals at Walston  
3 was a highly political and sensitive affair. For  
4 Mr. Crimmins to have bought my one-percent interest  
5 would have put everything out of balance.

6 I think the level of your importance in the  
7 firm determined the percentage of interest in the  
8 Montgomery Company. As I remember, Mr. McCollum  
9 had a five-percent interest. Members of the execu-  
10 tive committee had a four-percent interest and so  
11 forth. Mr. Crimmins had a two-percent interest  
12 and he was fixed at that level, which tells you  
13 where I was.

14 THE CHAIRMAN: Mr. Rauschman, you have testified  
15 that in your capacity, at the time as head of com-  
16 pliance at Walston, it was your legal opinion it  
17 wasn't necessary to communicate with the Exchange  
18 to make an off-labeled transaction in a listed stock  
19 if the transaction was a private placement in letter  
20 or investment letter-type stock.

21 THE WITNESS: That's correct.

22 THE CHAIRMAN: That it could not have been, in  
23 fact, accomplished on the floor. Have you had  
24 occasion at Walston specifically to address yourself  
25 to that question?

1  
2 THE WITNESS: The answer is so clear in my  
3 mind that I feel certain I have had over the years.  
4 I think I have from time to time made various in-  
5 quiries with respect to this of Harold Schutz.

6 THE CHAIRMAN: Who is he?

7 THE WITNESS: He was for many years -- he is  
8 now retired -- an official of the New York Stock  
9 Exchange who gave rulings on almost everything.  
10 I cannot give you a specific instance, but I am  
11 sure I have had this conversation many times with  
12 various people, and particularly with Mr. Schutz.  
13 That would have been my opinion then and it remains  
14 my opinion today.

15 THE CHAIRMAN: Was it the policy or procedure  
16 at Halston that if an employee, or indeed the firm  
17 for its own account, or on behalf of an investment  
18 banking client, was about to engage in a private  
19 placement off the Exchange, that you would be the  
20 person to whom it would be communicated, to deter-  
21 mine if there was any Exchange approval or any  
22 legalities which had to be covered?

23 THE WITNESS: Not normally. Normally, such an  
24 inquiry would have been made through the corporate  
25 finance department and it would have involved

1 typically the firm's own position in a security.  
2  
3 Where an individual would like to purchase securities  
4 privately under some Securities Act restriction,  
5 it would come to me.

6 THE CHAIRMAN: If I were an employee of Walston  
7 at the time you were there and had the opportunity  
8 to make an investment in lettered stock, one in  
9 which Walston had an interest as investment banker  
10 or as underwriter, would I need the approval of  
11 my superiors in particular, or of the legal depart-  
12 ment of Walston & Company to engage in such trans-  
13 action?

14 THE WITNESS: No, sir, not then.

15 THE CHAIRMAN: Were you aware that those kinds  
16 of transactions may have been taking place without  
17 your knowledge or your express approval, in any  
18 event?

19 THE WITNESS: I seem to remember that I had  
20 knowledge that transactions of this nature took  
21 place from time to time, but I think in the context  
22 of Walston's situation, Walston was very rarely an  
23 originating underwriter. We were most often and  
24 almost exclusively at that time participants in  
25 underwriting syndicates.

PAUL FROMM, C.S.R. -- SIGNATURE REQUIRED -- EXHIBIT 7-5032

1  
2 Other than Mr. Gordon McCollum's operation,  
3 which was private placements, we did have little  
4 originating underwriting, so it would be rare that  
5 that proposition would present itself; that is,  
6 someone in the firm purchasing a security privately  
7 of which Walston was the managing underwriter,  
8 because it was never managing underwriter.

9 We did have a policy which required any account  
10 executive to disclose to his customer any interest  
11 he had in any security he was recommending the pur-  
12 chase or sale of. Beyond that, I don't think there  
13 was any separate policy requirement that someone  
14 purchasing stock privately disclose it to the firm.

15 THE CHAIRMAN: Let me pursue it. You are say-  
16 ing that if I, an account executive, owned a  
17 hundred shares of General Motors, I would be re-  
18 quired to disclose that ownership to a person I  
19 subsequently solicited to buy the stock?

20 THE WITNESS: Yes.

21 THE CHAIRMAN: It was not determinative as to  
22 how many shares I owned whether it was material or  
23 not, whether I had any beneficial interest?

24 THE WITNESS: Yes. We believe that any inter-  
25 est, either by the firm or by its officers or

PAUL FROMAN, C.S.R. -- STRUCTURAL REPORTER -- Docket 7-5832

1  
2 employees, should be disclosed to customers when  
3 we are recommending it. Consequently, research  
4 reports and that sort of thing made a disclosure  
5 on behalf of the firm.

6 THE CHAIRMAN: During the Four Seasons era,  
7 while you were still at Walston, having communi-  
8 cations with the American Stock Exchange as to  
9 Four Seasons, did you have opportunity to deter-  
10 mine whether Walston account executives were com-  
11 plying with this policy relationship as to solicit-  
12 ing Four Seasons?

13 THE WITNESS: I don't remember specifically.

14 THE CHAIRMAN: Was there a method by which it  
15 was monitored within the firm?

16 THE WITNESS: No, I can't think of any.

17 THE CHAIRMAN: Again, Mr. Rauschman, you have  
18 no recollection of Mr. Grumins ever coming to you  
19 and seeking your advice or your approval with respect  
20 to making a private transaction in the securities of  
21 Four Seasons?

22 THE WITNESS: No, sir, I don't remember.

23 THE CHAIRMAN: I think there has been testimony  
24 that such a transaction may have occurred during  
25 December of 1968. You have no knowledge of it?

PAUL FROWEN, C.E.R. -- DIRECTOR RECOVER -- BARCLAY 7-6322

1  
2 THE WITNESS: I have no recollection of any  
3 knowledge of it, no. I don't mean to hedge. Some-  
4 one may have told me about it. I simply do not  
5 remember being told about it.

6 THE CHAIRMAN: But do I understand your tes-  
7 timony to be that even if such a transaction were  
8 contemplated, there was no Walston policy at the  
9 time which required your approval?

10 THE WITNESS: That's correct.

11 THE CHAIRMAN: Turning now to Regulation "T,"  
12 I believe you said it was your opinion that Regu-  
13 lation "T" is inapplicable with respect to the  
14 purchase of investment letter stock?

15 THE WITNESS: That is my opinion, yes.

16 THE CHAIRMAN: Can you give me a little more  
17 of your legal basis for that opinion? Is there a  
18 certain exempted clause you are relying upon? I  
19 would like your legal basis for saying it.

20 THE WITNESS: As I remember Regulation "T,"  
21 it speaks about persons subject to that title. I  
22 think registrants under the 1934 Act are persons  
23 subject to that title. I think it was not applicable  
24 to individual employees of brokerage firms, as to  
25 the extension of credit.

1  
2 THE CHAIRMAN: How about arranging for?

3 THE WITNESS: That is section 7.

4 THE CHAIRMAN: Hypothetically, could an em-  
5 ployee go outside of Walston and induce or procure  
6 or arrange credit for himself which could have not  
7 been extended at Walston?

8 THE WITNESS: I think it would have been pro-  
9 hibited if he did it as an agent of the registrant  
10 firm, but not on an individual basis. In other  
11 words, in my opinion, an individual employee,  
12 unless he is acting within the scope of his employ-  
13 ment, is not subject to Regulation "T."

14 I think other regulations may apply to him.  
15 I think Regulation "X" came into being partly to  
16 fill in this gap.

17 THE CHAIRMAN: Let me pursue it a little  
18 further. Is it your opinion that an employee of a  
19 New York member firm today, take Reynolds & Com-  
20 pany, for instance, could go to a bank in the City  
21 of New York and get an extension of credit on a  
22 non-marginable account?

23 MR. BAB: Regulation "U" or Regulation "T."

24 THE CHAIRMAN: There is a line of federal  
25 decisions with respect to a rather unique situation

1  
2 of people who are engaged in the brokerage business,  
3 either as brokers or as employees, as to their  
4 ability even to deal with commercial banks.

5 MR. BAB: I just want to make clear -- I  
6 know what you are saying. You are talking about  
7 Regulation "T," not any obligation of the bank.

8 THE CHAIRMAN: I am talking about the employee  
9 himself.

10 THE WITNESS: I think, Mr. Chairman, that  
11 Regulation "X," as I said, as recently promul-  
12 gated, affects this ability. I also think the case  
13 I remember which seems to bear on the subject is  
14 the Sutro case, which involved employees of a  
15 broker-dealer, who are held to be liable under  
16 Regulation "T," for arranging credit in violation  
17 of Regulation "T."

18 I would distinguish this, because I believe  
19 they were acting as agents of this member firm.

20 THE CHAIRMAN: I thank you for probing. You  
21 testified you had an inquiry from the Amer that  
22 they wished you to make an inquiry of Mr. Crimmins  
23 with respect to the stock split, as to what, if  
24 any, advance information he had.

25 THE WITNESS: Yes.

1  
2 THE CHAIRMAN: In addition to questioning Mr.  
3 Crimmins and determining what dialogue or com-  
4 munication he had with Four Seasons' officials,  
5 did you make any investigation as to Mr. Crim-  
6 mins' customers' activities just prior or on or  
7 about the announcement of the stock split?

8 THE WITNESS: I believe I did. I remember  
9 monitoring trading in Four Seasons actually from  
10 the time it went public, for a number of reasons.  
11 Because of Montgomery & Company's interest in  
12 Four Seasons, I was uncomfortable at the poten-  
13 tial conflict. We kept very close watch of Four  
14 Seasons. I did do some checking all the time.

15 THE CHAIRMAN: Do you recall what, if any, your  
16 findings were with respect to trading just prior to  
17 the announcement of the split?

18 THE WITNESS: I don't have a very good recol-  
19 lection, but I am persuaded it was not remarkable  
20 one way or the other.

21 THE CHAIRMAN: You have no recollection about  
22 being concerned about the trading?

23 THE WITNESS: No. I seem to remember that, on  
24 balance, Mr. Crimmins, over a period of time  
25 around this time, was a seller more than he was

1  
2 a buyer.

3 THE CHAIRMAN: I think you have testified  
4 that they didn't want Mr. Crimmins' opinion. They  
5 perhaps wanted the opinion of customers of Mr.  
6 Crimmins.

7 THE WITNESS: From what Mr. Crimmins told me  
8 Mr. Clark had asked him for.

9 THE CHAIRMAN: Did you speak to Mr. Clark?

10 THE WITNESS: No, sir, never.

11 THE CHAIRMAN: And that was the gentleman who  
12 called him from Four Seasons, asking for his  
13 opinion?

14 THE WITNESS: I think that's correct.

15 THE CHAIRMAN: Doesn't it seem strange to you  
16 that Mr. Crimmins, who did have an ownership in  
17 Montgomery Company, who had listed the company,  
18 in a sense, for Walston & Company, who was very  
19 active, and they didn't want his opinion? Why would  
20 they pick Mr. Crimmins to call about a stock split?

21 THE WITNESS: I think there may have been a  
22 number of reasons. I think Mr. Crimmins handled  
23 the accounts of several individuals at Four Seasons.  
24 They were often in contact with him normally.

25 It is also my recollection that Mr. Crimmins

PAUL FREEMAN, C.S.R. — INTERVIEW REPORTER — January 7-1952

1  
2 visited FourSeasons not on behalf of the firm, but  
3 on behalf of his customers. Mr. Crimmins was  
4 kind of an account executive with an account hat  
5 on, because he was both an account executive and  
6 a manager, who would press a company pretty thoroughly  
7 and I wouldn't be surprised that he would visit  
8 Four Seasons.

9 I am speculating as to why Mr. Clark might  
10 call Mr. Crimmins.

11 THE CHAIRMAN: Did you have any concern  
12 internally, as far as Walston & Company, about Mr.  
13 Crimmins' communication with respect to the stock  
14 split?

15 THE WITNESS: My recollection is that Mr.  
16 Fleming was fully informed as to every breath  
17 drawn by anybody remotely connected with Four  
18 Seasons that the firm was fully informed. Sure,  
19 I was concerned. Walston had never been in this  
20 position before in my tenure with the firm.

21 THE CHAIRMAN: You testified you did not talk  
22 to any of Mr. Crimmins' customers as to anything  
23 they were told about a stock split?

24 THE WITNESS: No, sir.

25 BY MR. KNAPP:

1  
2 Q Mr. Rauschman, as an expert legal compliance  
3 officer and counsel, if you had known that Mr. Crimmins  
4 owned 30,000 unregistered shares of Four Seasons, pur-  
5 chased from the company's insiders at a time when the  
6 Walston firm was Four Seasons' principal underwriter,  
7 would you have advised him to make disclosure to his  
8 customers of this fact?

9 MR. BAB: In the first place, it does not  
10 comport with the facts, because Mr. Crimmins didn't  
11 buy his last block until April of 1969. The tes-  
12 timony in the record is that the Four Seasons private  
13 placements, as well as public offerings, were  
14 done mostly outside of Walston. They were done  
15 with Ehlers' company, Riter & Company and some  
16 others.

17 THE CHAIRMAN: I think it is a proper ques-  
18 tion. It may be repetitious, but Mr. Rauschman  
19 advised me that it was Walston's policy to disclose  
20 to a customer if they had any interest.

21 MR. KNAPP: Please read the question back to  
22 the witness.

23 (Question read.)

24 MR. BAB: Is there an allegation here that Mr.  
25 Crimmins failed to disclose to the customers? I

1  
2 thought it wasn't in the case.

3 THE CHAIRMAN: I think the general specifi-  
4 cations of No. 1, and his relationships -- I  
5 think it is germane and we will receive this in-  
6 formation.

7 A That would have been in accordance with our  
8 policy. Yes, I would have given him such advice.

9 Q And if you were informed of the fact that  
10 he held the shares, you would have told Mr. Crimmins  
11 that the firm policy was to make a disclosure?

12 A If the situation arose and Mr. Crimmins was  
13 familiar with our policy, then I would have assumed  
14 he would follow it.

15 MR. KNAPP: I have no further questions.

16 REDIRECT EXAMINATION

17 BY MR. PAB:

18 Q Mr. Rauschman, there was discussion or tes-  
19 timony that you discussed with Mr. Crimmins this ques-  
20 tion of a possible stock split in Four Seasons. Did  
21 that discussion include whether or not it was to be a  
22 2-for-1, 3-for-1, or was any basis for the split dis-  
23 cussed, or was it a stock split in general?

24 A As I remember, it was part of the inquiry  
25 from Mr. Clark, which Mr. Crimmins was supposed to

1  
2 determine from his customers. If they were in favor of  
3 a split, what kind of a split would they be in favor  
4 of?

5 MR. ROBERT HILL: Did I understand you to say  
6 that when the American Exchange inquired of you  
7 about whether or not the firm had advance informa-  
8 tion or inside information with regard to the  
9 stock split, they referred specifically to Mr.  
10 Crimmins?

11 THE WITNESS: Yes.

12 MR. ROBERT HILL: Why would the American  
13 Exchange, or any exchange for that matter, specify  
14 any particular individual at a firm?

15 THE WITNESS: I was under the impression that  
16 the Exchange had received some information to this  
17 effect and they were asking me specifically to  
18 bird-dog this piece of information. I was not  
19 asked a general question as to whether Walston had  
20 prior knowledge of the announcement of the stock  
21 split. I was simply asked about Mr. Crimmins'  
22 activity. I wondered about it myself.

23 THE CHAIRMAN: Did they advise you as to the  
24 source of their concern?

25 THE WITNESS: No. My recollection is that

PAUL HENNING, C.S.M. -- DIRECTOR, READER -- JUNE 1, 1962

1  
2 generally they had some information about this  
3 conversation between Mr. Clark and Mr. Crimmins and  
4 they were asking me to pin it down.

5 MR. ROBERT HILL: In your position, naturally,  
6 you are supposed to be very suspicious, but you  
7 didn't pursue it, did you?

8 THE WITNESS: I think I told you I did have  
9 a conversation with Glen Miller on the subject,  
10 primarily to report to him the Exchange's inquiry,  
11 which I regarded, as I remember, as very peculiar.  
12 I had never received such an inquiry prior to  
13 that, nor since.

14 It seems to me I remember discussing with  
15 him what knowledge, if any, he had. I believe he  
16 was closer to Four Seasons than Mr. Crimmins was  
17 about it. I seem to remember that Mr. Miller had  
18 a similar conversation with Four Seasons. I got the  
19 impression from this that Four Seasons was almost  
20 canvassing people as to whether or not they ought to  
21 split their stock. Mr. Crimmins was one of several  
22 people they had asked.

23 MR. ROBERT HILL: Along that line, under the  
24 previous inquiry from the Exchange, where they had  
25 first spoken of activity in the stock, did I under-

1  
2 stand you to say they referred to Mr. Nissan's  
3 activity, or did you look it up and find out it  
4 was Mr. Nissan who was most active.

5 THE WITNESS: The question about the activity  
6 was subsequent to the question, as I remember it,  
7 to the question of the stock split. I think it  
8 was later on in the month of January. I frankly  
9 don't remember whether they directed my attention  
10 to Nissan's transactions, or whether it simply  
11 appeared that way from our records.

12 At that time, they were primarily concerned  
13 with Nissan's transactions, although there were  
14 various other account executives who were active.  
15 The name of Jerry Klein comes to mind as being  
16 another person who was very active, a fellow named  
17 Sechet in Florida.

18 THE CHAIRMAN: You said that for a period of  
19 time there was a direction put out to Walston em-  
20 ployees to terminate any further solicitation in  
21 Four Seasons orders. Why was that?

22 THE WITNESS: I think the firm believed it had  
23 acquired -- well, I believe very strongly that  
24 there were too many shares of Four Seasons owned  
25 by Walston customers and we had a tiger by the

1  
2 tail.

3 THE CHAIRMAN: That was premised on how the  
4 position was getting very substantial?

5 THE WITNESS: It was enormous. I had been  
6 urging Mr. Fleming for some time to take this  
7 position. I think the Exchange's inquiry  
8 probably triggered his agreement.

9 THE CHAIRMAN: Did the American Stock  
10 Exchange in any way suggest it might be an approp-  
11 riate course of action?

12 THE WITNESS: I don't remember; I don't  
13 think so.

14 MR. EAB: I have no further questions.

15 THE CHAIRMAN: Thank you very much, Mr. Rausch-  
16 man.

17 (Witness excused.)

18 THE CHAIRMAN: We will take a short recess and  
19 then Mr. Grimmings can resume the stand.

20 (Short recess taken.)

21 THE CHAIRMAN: Let the record show that Mr.  
22 Grimmings has previously been sworn.

23 F R A N K J. C R I M M I N S resumed the stand  
24 and testified further as follows:

25 DIRECT EXAMINATION (cont'd)

PAUL HOGAN, C.S.R. -- DEPUTY REPORTER -- EAB: 7-6982

1  
2 BY MR. BAB:

3 Q At any time relevant to these proceedings, did  
4 you have any material inside information concerning  
5 Four Seasons Nursing?

6 A No, sir.

7 MR. BAB: I have no further questions.

8 MR. KNAPP: We can get started, but I don't  
9 think I will finish today.

10 THE CHAIRMAN: Well, we can get in about 20  
11 minutes. If you prefer not to start now --

12 MR. KNAPP: I would like to review the  
13 answer to the charges in more detail.

14 THE CHAIRMAN: However, you may proceed.

15 CROSS EXAMINATION

16 BY MR. KNAPP:

17 Q In October or November of 1953, it was your  
18 testimony that you met Mr. Clark, Mr. Gray, Mrs. Gray,  
19 and Mr. McCollum in New York City and on this occasion  
20 you indicated to Mr. Clark that you would like to buy  
21 restricted stock in Four Seasons, is that correct?

22 A Yes.

23 Q Was the statement made in the presence  
24 of anybody other than Mr. Clark?

25 A Well, Mr. Gray was sitting there.

PAUL FERNON, C.S.R. -- TELETYPE REPORTER -- RANBY 7-4932

1

2

Q Was Mr. McCollum sitting there?

3

A Yes, on the other side of the table.

4

Q Prior to this meeting in October or November

5

1968 -- first, was it in New York City?

6

A Yes.

7

Q Where in New York City?

8

A I don't recall the restaurant.

9

Q But it was at a restaurant?

10

A Yes.

11

Q And prior to the listing of Four Seasons on

12

the American Stock Exchange?

13

A I believe so.

14

Q Were you aware at that time of Four Seasons'

15

intention to list on the American Stock Exchange?

16

A I believe so.

17

Q Who had informed you?

18

A I think Mr. McCollum and Mr. Miller had

19

discussed it, that the company was thinking about list-

20

ing on the American Stock Exchange.

21

Q Prior to October or November of 1968, had you

22

discussed the listing with Mr. Clark?

23

A I believe so, yes. Mr. McCollum had asked

24

several people in Chicago and it in turn came to New

25

York, did we know of a good specialist.

1  
2 Q Prior to late October or early November 1968,  
3 would it be fair to say that you formed a good personal  
4 relationship with Mr. Clark and other people in Four  
5 Seasons?

6 MR. EAB: That is a total characterization.  
7 I think it has to be more specific to know what we  
8 are speaking of.

9 THE CHAIRMAN: I think Mr. Crimmins can best  
10 describe the relationship he had.

11 A I would call it a good business relationship.

12 Q Prior to that meeting, had you met with Mr.  
13 Clark on purely social occasions?

14 A Yes.

15 Q And would he have been included in a golfing  
16 holiday in Las Vegas attended by your wife, Mr. Clark and  
17 his wife and Mr. Linn?

18 A I think it was in the following year, in March  
19 of 1969, somewhere thereabouts. That is my best recollec-  
20 tion.

21 Q If you refer to pages 81 and 82 of your testimony,  
22 I believe it was some time in the middle of 1968. Would  
23 you like me to refresh your recollection?

24 A Yes, I would appreciate it.

25 Q A question at page 81:

PAUL FROMAN, C.S.R. — DIRECTIVE REPORTER — BANCROFT 7-6322

"Were there any other meetings during this period at the end of 1968?

"Answer: I think I played some golf with Jack around the middle of November.

"Question: Where?

"Answer: Out in Las Vegas. My wife was there. His wife was there. I think Jim Linn was there and his wife."

Do you want to change your testimony?

A No.

Q Was it before or after the meeting that the purchase of restricted stock from Mr. Clark was mentioned?

A I honestly can't remember.

Q Let's go back a few months to June of 1968. I believe you testified it was your first visit to Four Seasons' headquarters in Oklahoma City.

A Correct.

Q Before you went there, you stopped off at Minneapolis to visit people from IDS?

A Incorrect.

Q Well, did you meet with people from IDS, Investors Diversified Services, in Oklahoma City on the occasion of your June 1968 meeting down there?

A No, sir.

PAUL FROMMA, C.S.E. — SENIOR REPORTER — E-128

1  
2 Q Were you accompanied by any other individual  
3 connected with Walston in June of 1968, on your visit to  
4 Oklahoma City?

5 A In June of 1963?

6 Q Yes.

7 A Mr. Paul Elliott, our research analyst.

8 Q You are quite certain you did not meet there  
9 with anybody from Investors Diversified Services?

10 A Absolutely.

11 Q What was your next meeting after the June 1968  
12 meeting in Oklahoma City with Mr. Clark?

13 A This is five years ago. I will have to refresh  
14 my recollection. I don't want to omit anything you  
15 think is relevant.

16 MR. BAB: Give him your best recollection.

17 MR. KNAPP: I have no objection, for purposes of  
18 your refreshing your recollection, of furnishing you  
19 with a copy of the chart or roadmap, Exchange Exhibit  
20 36.

21 MR. BAB: If Mr. Knapp has a portion of the  
22 testimony or a document, he can show it to the wit-  
23 ness and see if it refreshes his recollection. It  
24 is so long ago he doesn't have a clear recollection  
25 now on these minutes.

PAUL FROMM, C.S.R. — STENOGRAPHIC REPORTER — BARNEY 7-6922

1  
2 THE CHAIRMAN: Would most of these dates be  
3 reflected in his earlier testimony, where he may  
4 have been far more aware of the event?

5 MR. KNAPP: I think when testimonial relevance  
6 is given, I can relate the event, which is in  
7 chronological order in Exhibit 36, relate it to  
8 Mr. Crimmins' testimony, which would be of guidance  
9 to him and the panel.

10 THE CHAIRMAN: Go on.

11 Q If you look at page 6, you will see the state-  
12 ment that you arranged a breakfast meeting in New York  
13 between Mr. Clark and partners of two hedge funds, Messrs.  
14 Kalmbach and Berman. Would that refresh your recollec-  
15 tion as to a meeting in New York in July of 1968?

16 MR. DAB: That is a document furnished this  
17 morning by Mr. Knapp. It purports to relate to  
18 transcripts, exhibits and other documents. I think  
19 the way to do it is with the transcript or document.

20 THE CHAIRMAN: His first attempt is to ask  
21 him who was there, where it was held, et cetera. If  
22 he has no recollection of it, if he has a transcript  
23 page, you can refresh him further.

24 Q Does that refresh your recollection as to a  
25 meeting with Messrs. Kalmbach and Berman?

1  
2 MR. BAB: I thought you made the point he has  
3 to find out first whether he has any recollection.  
4 He is asking him to look at this piece of paper.

5 THE CHAIRMAN: He merely read it and he asked  
6 if it refreshes him. If he says it doesn't refresh  
7 him, he will find a further reference.

8 THE WITNESS: It could be in July of 1968, yes.

9 Q I go to your own testimony on page 39 --

10 MR. BAB: This is the vice of it. He shows  
11 him the piece of paper and then he has the tran-  
12 script.

13 THE CHAIRMAN: You are showing undue concern.  
14 He asked him does he recall a meeting in New York  
15 City, between certain people, held at a certain  
16 time. Now he is referring to a transcript page  
17 where he might further refresh himself. If it  
18 disturbs you not to have your witness look at it, he  
19 need not look at it.

20 Q At page 39 of your interview, your answer to  
21 the inquiry was: "I believe it was July 9th. I had a  
22 breakfast meeting set up with two friends of mine who  
23 run two small hedge funds, Berman, Kalmbach & Company.  
24 This was July 9th or thereabouts.

25 "Question: You had a breakfast meeting with

PAUL FROMM, C.S.R. -- STATUTORY REPORTER -- March 7-1992

1  
2 Mr. Clark?

3 "Answer: That's right, with Mr. Kalmback &  
4 Mr. Berman."

5 I ask you whether you have any independent  
6 recollection of the subject matter of the discussion at  
7 this meeting on July 9th or thereabouts with Messrs.  
8 Kalmback and Berman?

9 A Well, if you continue on, Mr. Knapp, you will  
10 see basically it was to introduce them to Jack Clark.  
11 They had done some independent work on the company them-  
12 selves. They certainly had seen the impressive perform-  
13 ance, in terms of the stated public earnings that this  
14 company was issuing. They had indicated a desire to  
15 meet Mr. Clark. That was the purpose of the breakfast  
16 meeting.

17 Q Do you recall the substance of the discussion  
18 which might have been had at that meeting?

19 A A very general meeting. They in turn flew out  
20 to see the company on numerous occasions thereafter, to  
21 do their own independent evaluation of the company.

22 Q Did you suggest to Messrs. Berman and Kalmback  
23 that they take a position in Four Seasons' stock at the  
24 meeting of July 9th?

25 A No, sir. These are independent money managers

PAUL FROMM, C.S.R. — SEYMOUR REPORTER — HARVEY 7-6112

1  
2 who make their own decisions.

3 Q But on the 9th of July they bought 1100 shares  
4 through Walston, is that correct?

5 A Yes.

6 Q And all together they bought 5600 shares in  
7 the next few days, as indicated at page 40, is that cor-  
8 rect?

9 THE CHAIRMAN: Is that page 40 of the tran-  
10 script?

11 MR. KNAPP: Yes.

12 Q Did you handle the accounts of the Kalmbach and  
13 Beruan hedge funds?

14 A Yes, they had accounts with me and several other  
15 brokerage firms.

16 Q Would you consider those purchases solicited or  
17 unsolicited?

18 A Well, they formulated their own opinions based  
19 on meeting Mr. Clark and listening to a broad discussion  
20 of the company. I don't think I could call it a sollicita-  
21 tion. They act independently. These are money managers  
22 who act completely and totally on their own evaluation  
23 of a company.

24 Q Did you recommend to them that they purchase the  
25 stock?

1  
2 A I don't believe I did.

3 MR. BAR: For the record, I believe we ought to  
4 indicate that the portion of the transcript read  
5 was not read completely. It seems to indicate that  
6 at his interview Mr. Crimmins was reading from  
7 some records. He didn't have the information in  
8 his mind. I think the other impression was given  
9 by what Mr. Knapp said. It says, "I don't have the  
10 correct total. I can add these up."

11 Then he went on to talk. It seems to indicate  
12 he had something in front of him when he testified at  
13 the interview.

14 BY MR. KNAPP:

15 Q Do you have any independent recollection as  
16 to whether, in August of 1958, you made arrangements  
17 for Mr. Clark to meet officials of Marine Midland Bank?

18 A I am glad you brought it up. Mr. Peter Gould  
19 had lunch with Mr. Clark and myself one day. I went back  
20 to my office after the luncheon, which was a very general  
21 discussion of the company.

22 They in turn walked back to Marine Midland  
23 Bank, and I had no further conversation with either Mr.  
24 Clark or Mr. Gould as to whether or not anything would  
25 transpire, in terms of Marine Midland making an investment

PAUL BROWMAN, C.S.R. — DIRECTOR REPORTER — BANCING 7-0232

1 in these notes, not one further word.

2 Q But later you received compensation or credit  
3 for placing securities of Four Seasons with Marine  
4 Midland, is that correct?

5 A Well, the compensation, to use your word, was  
6 unregistered warrants in Four Seasons Equity which are  
7 also worthless, which I never received.

8 MR. EAB: Can we also note for the record from  
9 whom this compensation, or whatever it is, flowed?

10 THE WITNESS: From Walston & Company.

11 Q Do you recall your next meeting with Mr. Clark,  
12 from your independent recollection, after August of  
13 1968?

14 A I would have to refer to the record.

15 Q I refer you to page 38 of your testimony.

16 A Page 39 says around August or September of  
17 1968.

18 Q When you visited with Mr. Clark in New York  
19 City, is that correct?

20 A That's correct. I still am and was then a  
21 member of the President's Council of Fordham University.  
22 I was quite interested in seeing Fordham make an invest-  
23 ment in Four Seasons Nursing Centers. I took him over  
24 to Jerry Tezi's organization, where the president of the  
25

PAUL FROMM, C.S.R. -- INTERVIEW REPORTER -- Docket 7-2932

1  
2 organization, the treasurer and myself had placed two  
3 Fordham accounts under Tsai Management's investment  
4 advisory department.

5 I took Mr. Clark over to meet three or four  
6 money managers who wanted to meet Mr. Clark, and I  
7 brought them over for that purpose, the express purpose  
8 being to buy it for Fordham University, but they wanted  
9 to see Mr. Clark and formulate their own opinions and  
10 evaluations.

11 Q Did you know, as a fact, if Fordham ever took  
12 a position in Four Seasons?

13 A Yes, sir, they did.

14 Q Do you know the size of the position?

15 A I am not quite sure of the number of shares,  
16 but it was a good position. They bought it on the  
17 secondary offering in November of 1968.

18 Q I assume you recommended the stock to Fordham  
19 University as a member of the President's Council?

20 A I recommended the stock to the investment  
21 advisors to look into the stock. I took Mr. Clark to  
22 meet the Tsai Management people, who in turn did their  
23 own independent homework on the company.

24 Q According to your testimony on page 33, you  
25 wanted Fordham University to buy a position.

PAUL FROMM, C.S.E. — EXHIBIT REPORTER — Directly 7-0922

1  
2 A Absolutely, but I didn't have the determining  
3 power to initiate a transaction for Fordham. Only the  
4 Tsai Management people could decide it.

5 Q But you wanted Fordham to buy a position in the  
6 stock, is that right?

7 MR. BAB: He is just arguing now. The tes-  
8 timony has been given.

9 Q Is that statement correct, according to page  
10 38 of your testimony?

11 THE CHAIRMAN: Ask him if he had independent  
12 power to purchase the stock.

13 Q Admittedly you did not.

14 A That's correct.

15 Q But you wanted them to buy the stock, accord-  
16 ing to your testimony at page 38.

17 A Yes.

18 Q I think we had an opportunity earlier today  
19 to go over the transcripts of the personal accounts  
20 opened at Walston for Mr. Clark and other persons con-  
21 nected with Four Seasons. Could you tell us how the  
22 question of your opening an account for these individuals  
23 arose?

24 A Well, I had a pretty good record in the indus-  
25 try, in terms of making money for clients. I think they

PAUL FROMM, C.S.A. -- DIRECTOR, NEWARK -- 7-6-62

1  
2 may have heard about it from some of the people, some of  
3 the other people in Walston. They asked me if I would  
4 open and service an account for them in New York. They  
5 had accounts prior to that, I believe, in Chicago. I  
6 agreed to open and service accounts for them in our  
7 New York office.

8 Q When you say "they," who is the first person  
9 who approached you to open an account?

10 A I am not quite sure. I think it was Mr. Clark.  
11 It was Mr. Clark or Mr. Bouse.

12 Q Did Mr. Clark arrange for Mr. Bouse and Mr.  
13 Clark's pilot, Mr. Keller, and the other people to open  
14 these accounts?

15 A No, sir.

16 Q Did they call you independently of Mr. Clark?

17 A Yes, sir.

18 Q Coming to the month of September or October  
19 1968, I refer you to page 64 of your testimony. Is it  
20 not the fact that you knew, some time prior to November  
21 12, 1968, when Four Seasons was listed on the Exchange,  
22 that that listing would occur?

23 A I think I answered that before.

24 Q I would like to have your answer again.

25 A The answer I gave you before was yes.

PAUL FROMM, C.S.P. — STENOGRAPHIC REPORTER — E.Archy 7-6932

1  
2 Q Did Mr. Clark address to you any inquiry about  
3 recommending a specialist for the Four Seasons' stock?

4 A The first inquiry came from Chicago, from Mr.  
5 McCollum.

6 Q Do you recall the nature of the inquiry?

7 A They were interested if anybody in the firm  
8 had a recommendation to make of a good specialist  
9 on the American Stock Exchange.

10 Q Was that the first time the question of an  
11 Exchange specialist was raised by Mr. McCollum?

12 MR. BAB: I will object. I don't see the  
13 materiality of an inquiry from somebody in the  
14 Chicago office of Walston to Mr. Crimmins regarding  
15 it. I don't see where it relates to the charges.

16 THE CHAIRMAN: He is exploring his relationship  
17 with the company, what services he may have per-  
18 formed; obviously, if he was in on the determina-  
19 tion to recommend a specialist for the firm.

20 Q Did the inquiry of the specialist come from  
21 Mr. McCollum or Mr. Clark in the first instance?

22 A Mr. McCollum.

23 Q I refer you to page 64 of your testimony, line  
24 13. Your answer to the inquiry as to how the matter of  
25 a specialist came to your attention is:

PAUL FRIEDMAN, C.S.R. — STENOGRAPHIC REPORTER — Docket 7-6011

1  
2 "Answer: Specifically, I don't remember who  
3 informed me of the possible listing on the American  
4 Stock Exchange. I am trying to recall, but I just can-  
5 not think of it. Jack did ask me" -- and I presume you  
6 refer to Mr. Clark -- "if I knew of any really bona fide  
7 people who would be a good specialist for his company,  
8 and I think rightfully so because they had worked  
9 pretty hard in building this company. It could have  
10 happened that way."

11 At that time, did you recommend a specialist  
12 to Mr. Clark?

13 A We had a get-together for cocktails one after-  
14 noon in New York.

15 Q The question is, did you recommend a special-  
16 ist to Mr. Clark?

17 A I am answering your question.

18 Q The answer is yes or no.

19 A I have to tell you basically the introduction.

20 Q I think the question calls for a yes or no  
21 answer.

22 THE CHAIRMAN: Well, answer and then explain  
23 your yes or no.

24 A Yes, I made an introduction.

25 Q Now you can make your explanation.

1  
2 A There was an afternoon in New York when Mr.  
3 Clark, Mrs. Clark, I believe myself, Mr. Santangelo,  
4 my assistant manager -- that is all I can recall right  
5 now -- met for a cocktail at 5:30 or 6:00 o'clock, the  
6 purpose being for Mr. Clark to meet Mr. Santangelo and  
7 Mr. Santangelo to meet Mr. Clark, at Twenty-One.

8 THE CHAIRMAN: It is now a little after five.  
9 Can we wrap this up with your questions relating  
10 to this specialist aspect?

11 Q Did you tell Mr. Clark you thought that Mr.  
12 Santangelo would make a good specialist?

13 A I told Mr. Clark that my secretary's father was  
14 the president of Keystone Railway Equipment Company, and  
15 several years prior to this he had been in New York  
16 visiting his daughter. Naturally, he came to my office  
17 and voiced his dissatisfaction with the fact he had  
18 been listed on the Midwest Stock Exchange and he was not  
19 really getting what he thought was a good market in the  
20 stock. His name was Mr. Shoesley.

21 I had Mr. Shoesley meet Mr. Santangelo down at  
22 the American Stock Exchange. Subsequently, the company  
23 moved from the Midwest Exchange to the American Stock  
24 Exchange. I attended the luncheon at which the Keystone  
25 Railway Equipment went on the American Stock Exchange

PAUL FREMAN, C.S.R. -- INTERVIEW REPORTER -- DECEMBER 7, 1951

1  
2 and Mr. Santangelo's firm became the specialist unit in  
3 the stock. I thought Mr. Santangelo was a good special-  
4 ist.

5 Q Wasn't he a good friend of yours?

6 A Yes, his wife had worked in charity benefits  
7 with my wife. I had known him about seven years.

8 Q And subsequently to his becoming the special-  
9 ist, I believe you testified you were in contact with  
10 him at least several times by telephone?

11 A I would see him around New York. I would  
12 speak to him, either by phone or in person. We all live  
13 up in the same part of Westchester County.

14 Q Did you telephone Mr. Santangelo during 1969  
15 generally about twice a week?

16 A I can't recall.

17 Q I refer you to page 129 of your testimony:

18 "Question: About how frequently do you speak  
19 to Mr. Santangelo?

20 "Answer: I would say once or twice a week.  
21 Either he calls me or I call him. More often he calls  
22 me to ask me what I think of the market myself."

23 Does that refresh your recollection?

24 A Yes.

25 MR. KILIPP: I think we can terminate at this

BEFORE THE  
AMERICAN STOCK EXCHANGE

----- x  
In the Matter of the :  
Disciplinary Hearing :  
of :  
FRANK J. CRISCIANO :  
----- x

86 Trinity Place  
New York, New York

July 25, 1973  
9:45 a. m.

B E F O R E :

THOMAS W. PAE, Chairman  
MARTIN M. BERMAN, Member  
THOMAS SOUL, Member  
GEORGE H. HOWARD, JR., Member  
ROBERT HILL, Member

Disciplinary Panel

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By: DONALD STUART EAB, ESQ.  
-and-  
SEYMOUR SWIDNER, ESQ., of Counsel

## PRESENT:

ROBERT BURNS,  
Arbitration Director.

objection?

MR. CRIMMINS: None whatsoever. Mr. Bab advised me of the situation yesterday and I have no objection.

THE CHAIRMAN: Mr. Knapp?

MR. KNAPP: The Exchange has no objection.

THE CHAIRMAN: Thank you very much, gentlemen. We will now continue. As I recall it, Mr. Knapp, you are in the process of cross examining Mr. Crimmings. Let the record show that Mr. Crimmings has been previously sworn.

FRANK J. CRIMMINS resumed the stand and, having been previously duly sworn, testified further as follows:

CROSS EXAMINATION (cont'd)

BY MR. KNAPP:

Q You were present at the last session, on July 18th, when Mr. Rauschman, the former compliance officer of Walston & Company, testified.

A Yes, sir.

Q At page 323 of Mr. Rauschman's testimony, the following question and answer appears, addressed to Mr. Rauschman:

"Question: Did Mr. Crimmings ever indicate to

PAUL FROMM, C.S.R. -- STENOGRAPHIC REPORTER -- S.A. 7-6832

1  
2 you he was interested in or had purchased shares of un-  
3 registered stock of Four Seasons from the company's  
4 principal officers?

5 "Answer: No, sir, not that I remember."

6 I want to ask you, Mr. Crimmins, whether you  
7 ever imparted to Mr. Rauschman the fact that you held  
8 unregistered shares of Four Seasons Nursing Centers,  
9 purchased from the company's three principal officers.

10 A No, sir.

11 MR. BAB: I will object to the question. As I  
12 understand the question, it seems to go to this  
13 charge that Mr. Knapp has tried to raise in the  
14 analysis he served before, going to the propriety  
15 of the disclosure under the entire restricted stock  
16 purchase. It was my understanding that the panel  
17 had ruled it is not part of the charges and it is  
18 not something we are presently discussing.

19 MR. KNAPP: I believe I can connect it, Mr.  
20 Chairman.

21 THE CHAIRMAN: All right, we will admit it sub-  
22 ject to further connection.

23 BY MR. KNAPP:

24 Q At page 342 of Mr. Rauschman's testimony he was  
asked the following question:

25 NIAL PROHAM, C.S.R. — STENOGRAPH RECORDED — January 7-1962

1 "Question: Mr. Rauschman, as an expert legal  
2 compliance officer and counsel, if you had known that Mr.  
3 Crimmins owned 30,000 unregistered shares of Four Seasons,  
4 purchased from the company's insiders at a time when the  
5 Walston firm was Four Seasons' principal underwriter,  
6 would you have advised him to make disclosure to his cus-  
7 tomers of this fact?"

8 After some objection Mr. Rauschman's answer  
9 was, appearing at page 343:

10 "Answer: That would have been in accordance  
11 with our policy. Yes, I would have given him such ad-  
12 vice."

13 Is it your testimony, Mr. Crimmins, that you  
14 were unaware of any firm policy at Walston requiring dis-  
15 closure to the firm of purchases of unregistered stock  
16 of issuers for whom Walston was acting as an underwriter,  
17 financial adviser, or in a similar capacity?

18 MR. BAB: I will object again. There is not  
19 one word in the charges about a question arising as to  
20 disclosure to customers. That is being dragged into this  
21 hearing at this very late date as a new charge. I am not  
22 afraid of the merits of the issue, but he is just expand-  
23 ing the charges to the point where we have been saying  
24 from the beginning that we just don't know what we are

PAUL FROMM, C.S.P. — SIGNATURE REQUIRED — DATE 7-5-82

1 here to defend against. It changes every day.

2 MR. KNAPP: We had a witness testify that it  
3 was a firm policy of Walston to disclose these  
4 matters to the firm and to its customers. I want to  
5 ask the witness whether he was aware of the policy.  
6

7 MR. BAB: I would like to know where in charges  
8 there is any allegation relating to disclosure or  
9 non-disclosure to customers with regard to this  
10 restricted stock purchase. I don't think I can  
11 find it. We are just going far afield of what  
12 this matter is supposed to be about.

13 THE CHAIRMAN: I think in subparagraph 2 under  
14 Charge 1, it does relate, and I am quoting from the  
15 first sentence of subparagraph 2:

16 "Despite this obligation, Mr. Crimmins engaged  
17 in extensive continuing efforts to solicit, promote  
18 interest and marketing activity in the stock during  
19 practically the entire period the stock was traded  
20 on the Exchange."

21 I think that getting the disclosures or non-  
22 disclosures he made in dealing with customers in  
23 Four Seasons is relevant background that we might  
24 consider. I agree with you that during the inter-  
25 rogation of employees of Amex counsel the other day,

26 PAUL FROMM, CLEA -- STENOGRAPHIC REPORTER -- 2-14-62

1  
2  
3  
4  
5  
6  
I think he did make it clear that there is no charge standing alone based upon omissions to state these facts, that they standing alone will give rise to a violation, nor is it alleged as a single cause of action.

7  
8  
9  
10  
I think it is background as to what disclosures, if any, Mr. Crimmins made in the course of his activities as a salesman and a manager for Walston with respect to his Four Seasons sales.

11  
12  
13  
14  
15  
MR. EAB: May I just understand? Is that being considered as one of the aspects which may constitute a violation by Mr. Crimmins? Is that one of the issues involved in Charge 1, because it certainly doesn't appear in the charge? I would just like to know if you are amending the charge to include it?

16  
17  
18  
19  
20  
THE CHAIRMAN: I think the panel would like all the background with respect to his activities in Four Seasons stock, and of course, this testimony was elicited from your witness.

21  
22  
23  
24  
MR. EAB: Over my objection, Mr. Chairman, for the very same reason: we are going beyond the charges and we are in effect amending these charges and creating a new charge which we are now obliged

1 to defend against.

2  
3 THE CHAIRMAN: We do not deem it to be an amend-  
4 ment of the charge. I will direct the witness to  
5 answer the question.

6 MR. KNAPP: Please reread the question, Mr.  
7 Reporter.

8 (Question read by reporter.)

9 A Yes.

10 Q You were unaware of any such policy? Since  
11 you didn't impart the information concerning your stock  
12 purchases to Mr. Rauschman, did you impart that informa-  
13 tion to anybody else at Walston between November 1968 and  
14 November 25, 1969, when you were called in for an Exchange  
15 interview?

16 A There was no enunciated policy at Walston to  
17 do so. Had there been, I certainly would have.

18 Q Regardless of the policy, did you impart that  
19 information to anybody at Walston?

20 A No, sir.

21 Q On November 25, 1969, Mr. Cabell accompanied  
22 you at your first interview at the Exchange, is that  
23 correct?

24 A Yes, sir.

25 Q Did you have an opportunity to discuss your

PAUL FROMM, C.S.R. -- SEVERAL STATES -- ARMY 1-011

1  
2 stock purchases of unregistered stock with Mr. Cabell  
3 prior to the interview?

4 A No, sir.

5 Q So that the first time Mr. Cabell knew of these  
6 unregistered stock purchases was when it came from your  
7 lips on November 25, 1969, is that correct?

8 A Yes.

9 Q On November 25, 1969, do you recall what the  
10 approximate price of Four Seasons stock was? That is the  
11 date of your interview.

12 A No, I don't recall.

13 Q Would you accept Exchange Exhibit 6, indicat-  
14 ing that the closing price on November 25, 1969 of Four  
15 Seasons was 73½?

16 A I will accept that.

17 Q Based on the 30,000 shares you then owned, what  
18 was the value of your holdings of restricted stock, in  
19 your opinion, based upon your criteria for evaluating  
20 lettered, restricted or unregistered stock?

21 MR. BAB: I will object to this. Are we talk-  
22 ing about market valuation, replacement value,  
23 what the discount was in the market?

24 MR. KNAPP: I want his own value.

THE CHAIRMAN: I am somewhat confused by the

PAUL FROMA, C.S.R. -- INTERVIEW REPORTER -- D-1047 7-6132

question. Are you asking him what the market value was?

MR. KNAPP: What he deemed to be the value of 30,000 restricted shares, with his own criteria for a discount, based upon a market price of 73½.

MR. BAE: I will object. Are we talking about what a willing buyer would pay a willing seller at arm's length?

THE CHAIRMAN: I am not altogether convinced of its relevancy or materiality.

Mr. Crimmins, if you have an opinion, you may state it.

MR. KNAPP: It refers to Charge 2.

A Frankly, the securities were bought for long term. I didn't look at them from the standpoint of week-to-week or month-to-month. Unregistered securities don't really have what you might call a market value until the holding period is concluded, which in this business is roughly two to three years.

Q Isn't it a fact, though, that unregistered shares of Four Seasons stock were being sold under investment letters during 1969?

A Could you clarify it, please?

Q Yes, weren't unregistered shares of Four Seasons

1 Nursing stock being sold to institutions and other private  
2 purchasers under investment restrictions during 1969?

3 MR. EAB: I will object to this. I don't see  
4 the materiality. It is vague. In general, sold  
5 by whom, to whom, under what circumstances?  
6

7 MR. KNAPP: The witness can say he doesn't  
8 know.

9 THE CHAIRMAN: You may answer if you know,  
10 Mr. Crimmins.

11 A I am not aware of this.

12 Q You say you were not aware in 1969 that un-  
13 registered shares were being sold to other persons and  
14 institutions?

15 MR. EAB: He said he doesn't know now whether  
16 he was aware.

17 Q Did you know in 1969 whether unregistered  
18 shares were being sold?

19 A By whom, to whom?

20 Q By Four Seasons to institutions or private  
21 purchasers.

22 THE CHAIRMAN: Before he responds, for my own  
23 information, when you say by Four Seasons, you  
24 mean by the company or by principals of the com-  
25 pany?

PAUL FREEMAN, C.S.R. -- MEMORANDUM RECORDED -- EXHIBIT 7-1992

1  
2 MR. KNAPP: I am talking about shares issued  
3 by the company.

4 THE CHAIRMAN: By the company?

5 MR. KNAPP: Yes, unregistered, lettered stock.

6 A I guess subsequent to the finalization, yes, I  
7 guess I was.

8 Q Subsequent to the finalization of what?

9 A Wasn't there a financing done by a firm for  
10 Four Seasons in 1969?

11 Q That's correct, April 21, 1969. Do you recall  
12 that, Mr. Crimmins?

13 A I don't recall the date, no, but I recall it  
14 was in 1969.

15 Q And do you recall it was the financing announced  
16 on April 22nd of Four Seasons Franchising Centers by 15  
17 or 16 institutional and private investors?

18 A I don't believe I ever saw the actual number  
19 of institutional investors, no.

20 Q I didn't ask you whether you saw the actual  
21 number, but do you recall the announcement of a \$15-  
22 million placement of securities of Four Seasons and  
23 Four Seasons Equities?

24 A Yes.

Q Do you recall the purchase price paid by the

PAUL FRONDA, C.S.P. -- EXECUTIVE DIRECTOR -- 2/26/77 1-5-32

1 holders of restricted stock on April 21, 1969, of re-  
2 stricted shares of Four Seasons?  
3

4 A No, I don't.

5 MR. KNAPP: I offer for identification as  
6 Exchange Exhibit 37 Four Seasons Equity Corporation's  
7 S-K report filed with the Securities & Exchange  
8 Commission in the month of May 1969.

9 MR. BURNS: It is marked Exchange Exhibit 37  
10 for identification.

11 THE CHAIRMAN: Are you offering it into evi-  
12 dence?

13 MR. KNAPP: I will show it to the witness first.

14 (The S-K referred to was marked Exchange's  
15 Exhibit 37 for identification.)

16 Q I show you Exhibit 37 for identification, Mr.  
17 Crimmins and I ask you to read the first page, please.  
18 After you have read it, I will ask you a question. Is it  
19 not the fact that restricted shares of Four Seasons stock  
20 were sold on or about April 21, 1969, restricted shares,  
21 unregistered shares, for \$60 a share?

22 MR. BAB: I will object to this as being totally  
23 immaterial and totally improper. I assume he has  
24 handed him an official document, an S-K of the  
25 SEC. If it is representative of what was filed,

PAUL FROMM, C.S.R. -- SHOOTING REPORTER -- E-155 7-6932

1  
2 it can certainly go into evidence. We don't know  
3 the terms. We don't know what was approved in the  
4 negotiation.

5 MR. KNAPP: It is highly relevant as to the  
6 issue of contemporaneous marketable value of Mr.  
7 Crimmins' 30,000 shares of unregistered stock, for  
8 which on November 25th he had a cash investment of  
9 \$7.66 a share, when unregistered stock was being  
10 sold for \$60 a share. I think it raises a very  
11 serious question as to why Mr. Crimmins got these  
12 particular terms from the Four Seasons insiders,  
13 which we will develop.

14 THE CHAIRMAN: I would agree with Mr. Knapp  
15 that this is a relevant line of questioning. You  
16 may proceed.

17 BY MR. KNAPP:

18 Q It is the fact that unregistered shares of  
19 Four Seasons stock were being sold, at least in April  
20 of 1969, for \$60 a share, is that correct?

21 MR. BAB: I will object. I don't know that  
22 Mr. Crimmins knows it. He has asked Mr. Crimmins  
23 to read something, which I have to assume has some  
24 information to that effect in it.

25 THE CHAIRMAN: Mr. Crimmins, do you have any

PAUL FROMM, C.S.R. - STENOGRAPHIC REPORTER - (202) 7-1-0912

1  
2 personal knowledge that such securities were sold  
3 at the price that Mr. Knapp has related?

4 THE WITNESS: I wasn't sure of the price until  
5 I saw this document.

6 THE CHAIRMAN: Is the price you are quoting  
7 out of the public SEC report of Four Seasons?

8 MR. KNAPP: Yes, of Four Seasons Equity  
9 Corporation, Mr. Chairman.

10 THE CHAIRMAN: As I understand you, Mr.  
11 Crimmins, until you saw this report, you did not  
12 recall what consideration was paid by those insti-  
13 tutions for their investment letter stock?

14 THE WITNESS: That's correct.

15 MR. EAB: Is that Four Seasons Nursing or  
16 Equity?

17 MR. KNAPP: Four Seasons Nursing and Four  
18 Seasons Equity.

19 MR. EAB: I have looked briefly at this pur-  
20 chase agreement. It is a package offered to in-  
21 stitutions of what appears to be various securities  
22 of three different entities. I think if we are go-  
23 ing to talk about this transaction at all, which I  
24 think is totally irrelevant, the whole purchase  
agreement ought to be put in. We are not talking

1 about the sale only of restricted securities of  
2 Four Seasons Nursing Centers. We are talking about  
3 a package to a group of investors, including common  
4 stock of Four Seasons Nursing Centers, common stock  
5 of Four Seasons Equity Corporation, and warrants  
6 for common stock of Four Seasons Franchise Centers.  
7

8 They have sold a package to a group of in-  
9 vestors. It has nothing to do with what Mr.  
10 Crimmins purchased from insiders in November of  
11 1963.

12 THE CHAIRMAN: Mr. Knapp, is it your intention  
13 to demonstrate that Mr. Crimmins may have received  
14 a far greater discount with respect to his pur-  
15 chase of investment letter stock than institutions  
16 were receiving in buying those same kind of shares?

17 MR. KNAPP: I will develop it.

18 THE CHAIRMAN: Was that the line you are try-  
19 ing to develop?

20 MR. KNAPP: Yes, plus the fact that these  
21 securities, restricted, lettered or unregistered,  
22 had a present substantial value quite considerably  
23 above Mr. Crimmins' purchase price, which evokes  
24 the need for an explanation of those particular  
terms of purchase as well as the extremely liberal

1  
2 credit terms.

3 I offer Exchange Exhibit 37 for identification  
4 in evidence for the purpose of showing a contemporary  
5 value in April 1969 of unregistered Four Seasons  
6 stock.

7 THE CHAIRMAN: It will be received into evidence  
8 as Exchange Exhibit 37.

9 (The 8-X report, heretofore marked Exchange  
10 Exhibit 37 for identification, was received in  
11 evidence.)

12 BY MR. KNAPP:

13 Q Mr. Crimmins, coming back to your own criteria  
14 for evaluation of restricted shares at that time  
15 of Four Seasons stock on November 25, 1969, the market  
16 was 75 $\frac{1}{2}$ . You testified at our last session that you  
17 believe restricted stock deserved approximately a 30-  
18 percent discount from market and this was the basis of  
19 your agreements with Messrs. Clark, Housh and Gray.

20 What, in your view as an experienced stock-  
21 broker on November 25, 1969, was the fair market value of  
22 30,000 shares of restricted stock then held by you at a  
23 market value of 73 $\frac{1}{2}$ ?

24 THE CHAIRMAN: I think he has previously  
25 answered the question to the best of his ability.

PAUL FROMM, C.S.P. -- INTERVIEW REPORTER -- SA-604 7-6932

1  
2 Q Is it your answer that you do not know, sir?

3 MR. EAB: I will object. I think he has  
4 answered it the best he can.

5 THE CHAIRMAN: He was not at that time giving  
6 thought to its value, deeming it as long-term  
7 investment, as I understood him.

8 THE WITNESS: That's correct.

9 Q During 1969, did you have occasion to furnish  
10 financial statements to a lending institution or a bank?

11 MR. EAB: Personal?

12 MR. KNAPP: Yes.

13 A I may have.

14 Q Did you include your 30,000 shares of restricted  
15 Four Seasons stock in that statement as an asset?

16 A I would have to treat it as an asset, yes.

17 Q Do you recall what you valued those shares at  
18 and when?

19 A No, I don't.

20 Q Would you have a copy of that financial state-  
21 ment available?

22 MR. EAB: Well, he doesn't know that there was  
23 one. I think he testified there may be. I don't  
24 think he testified there definitely was.

25 Q I want the best of your recollection, whether

1  
2 you prepared and filed with some lending institution  
3 in 1969 a personal financial statement.

4 A I may have; I don't recall 1969 or 1970. I  
5 am not sure.

6 Q If you had filed such a statement, what would  
7 you have recorded as the value of your Four Seasons  
8 stock on November 25, 1969?

9 MR. BAB: This is total speculation based on  
10 an unproven assumption. I object.

11 THE CHAIRMAN: I think this panel has partici-  
12 pated enough in dealing with investment letter  
13 stock to know the various valuations put on it.  
14 It may be at the time there were conditions the  
15 purchaser would have to assume in taking the stock,  
16 a forecast of what the company's earnings are.  
17 Obviously it did have value at that time. I think  
18 you should pursue another line. I think the point  
19 you are attempting to make -- we appreciate it  
20 that it certainly did have value at the time. If  
21 the report demonstrates that others were paying a  
22 higher price than Mr. Crimmins was able to nego-  
23 tiate, obviously, the panel will take that recog-  
24 nition if it is shown by the exhibit.

25 MR. KNAPP: I will wind this point up with one

PAUL BEAMAN, C.S.R. -- STENOGRAPHIC REPORTER -- BANCROFT 7-0932

question.

Q On November 25, 1969, what was your total cash investment in the 30,000 shares of unregistered stock that you then held in Four Seasons? May I suggest it was \$205,000, Mr. Crimmins? Would that be correct?

MR. EAB: It is in the response.

MR. KNAPP: Can we stipulate that Mr. Crimmins' total investment at that point was \$205,000, or \$7.65 a share?

THE CHAIRMAN: Mr. Crimmins might refresh himself with the answer, if he doesn't recall the consideration paid.

A That number is incorrect. The total figure, based on reviewing my prior record here, was \$230,000

THE CHAIRMAN: You are testifying, Mr. Crimmins, that the total consideration paid by you, or you were obligated to pay, was \$230,000 for 30,000 shares of Four Seasons stock?

MR. EAB: No, that is the amount of cash he paid. He had notes for more.

THE CHAIRMAN: Then I misunderstood the question.

MR. KNAPP: The total cash. The total agreed purchase price was \$650,000.

PAUL FROMAN, C.S.R. -- MEMORANDUM FOR MR. EAB -- Re: 7-6722

1  
2 THE CHAIRMAN: Then you are asking him what  
3 amount of cash he paid initially?

4 MR. KNAPP: Yes, on November 25th, when he  
5 came in for an interview.

6 THE CHAIRMAN: And you are now testifying it  
7 was \$230,000?

8 THE WITNESS: Not \$205,000, right.

9 Q Which reduces it to \$7.66 a share, is that  
10 correct?

11 MR. BAB: Well, it is argument. It is not  
12 proper questioning of the witness.

13 MR. KNAPP: I think the panel can calculate it.

14 THE CHAIRMAN: You are dividing the 30,000  
15 shares into \$230,000; the total consideration was  
16 \$650,000?

17 MR. KNAPP: I am just speaking of the cash  
18 portion of the investment.

19 BY MR. KNAPP:

20 Q What percentage of the market price of 73½  
21 would you have had to realize on 30,000 shares in order  
22 to realize a profit on your 30,000 shares you then held?

23 MR. BAB: I object to the question.

24 Q I suggest it would have been about one third  
25 of the market price, is that correct?

PAUL FROMM, C.S.R. -- SENIORITY REPORTER -- S.A. 7-6222

1  
2 MR. EAB: I object to the question. I am not  
3 sure what he is throwing into the calculation here.  
4 All it is is an arithmetical calculation.

5 THE CHAIRMAN: Mr. Knapp, couldn't we recog-  
6 nize that in order to make a profit, he would have  
7 had to have realized over \$650,000 in the sale of  
8 the stock to realize a profit?

9 MR. KNAPP: Which was approximately one-third  
10 of the market price in November of 1969. That is  
11 a matter of record, Mr. Chairman.

12 BY MR. KNAPP:

13 Q Mr. Crimmins, I would like to go back to your  
14 first purchase of 10,000 shares of Four Seasons stock  
15 from Messrs. Clark, Bouse and Gray, which you testified  
16 was arranged some time in early November 1968. At page  
17 308 of the transcript of July 18th, you testified that  
18 "Credit terms were set up by their lawyers, not by  
19 myself."

20 At page 309 you testified: "This is something  
21 which is very paramount. I did not set these credit  
22 terms or arrangements. They were established by counsel  
23 for these three gentlemen."

24 Is it your testimony, Mr. Crimmins, that the  
purchase arrangements, in so far as credit was concerned

1 on the purchase of the 10,000 shares, was formulated  
2 solely by Messrs. Clark, Bouse and Gray's attorney and  
3 not by negotiations between you and Mr. Clark?  
4

5 A I think the attorney set out in this corre-  
6 pondence some substance of what you said.

7 Q Wasn't the basic business arrangement made  
8 between you and Mr. Clark, and is it not the fact that  
9 all the lawyer did was act as the scrivener in im-  
10 plementing your personal understanding with Mr. Clark?

11 A No, I think the price was discussed and  
12 negotiated between myself, Mr. Clark, Mr. Bouse and Mr.  
13 Gray. The payment terms were negotiated by those people  
14 through Mr. Andrews to me.

15 Q Are you telling us the attorney set the credit  
16 terms?

17 A Yes.

18 Q You and Mr. Clark just set the price terms?

19 A I think that's correct, yes.

20 Q I refer you to pages 175 and 176 of your inter-  
21 view on January 29, 1970. At page 176:

22 "Question: After you had reached an agreement  
23 with him" -- meaning Mr. Clark -- "as to price, how were  
24 the financing arrangements worked out?

25 "Answer: My personal financing arrangements?

PAUL FROMM, C.S.R. -- INTERVIEW REPORTER -- Docket 7-1932

1 "Question: Yes."

2 Skipping to line 10:

3 "Question: Who suggested this method of  
4 financing it?

5 "Answer: I think it was mutually agreed upon."

6 Then I refer you to your further answer at  
7 line 22:

8 "As I think now, I think it was suggested by  
9 Messrs. Clark, Bouse and Gray, and that is why I received  
10 a copy of the letter from their attorney."

11 Is it not the fact that the financing arrange-  
12 ments, as well as the price, were negotiated personally  
13 between you and Messrs. Clark, Bouse and Gray on the  
14 first block of 10,000 shares?

15 A I think that answer pretty well states what  
16 I have just said a moment ago.

17 Q The attorney did not set the credit terms, did  
18 he, Mr. Crimmins?

19 MR. BAB: I think we are in a semantic discus-  
20 sion. I think what Mr. Crimmins has testified to  
21 is that he got from the attorney a letter setting  
22 forth the credit terms. I don't think he neces-  
23 sarily said he negotiated or indeed that the lawyer  
24 is the one who initiated the credit terms. He just

25 PAUL PHOMM, C.S.R. — INTERVIEW REPORT — Docket 7-5923

1 testified how he received notice of them.  
2

3 Q In other words, the lawyer was merely the  
4 scrivener in the transaction and had to render his  
5 opinion to the transfer agent?

6 MR. BAB: What Mr. Knapp has not read on  
7 page 176 is that portion of the letter from John  
8 Andrews, the counsel for Jack Clark, which was  
9 Exhibit 5 at that deposition, in which the letter  
10 of John C. Andrews states the credit terms. He  
11 didn't read that portion of what he was just  
12 reading.

13 THE CHAIRMAN: Mr. Crimmins, for my own clari-  
14 fication, are you saying that you and the individ-  
15 uals you were buying this stock from made the  
16 agreement that you would purchase this on credit  
17 rather than cash, and then you left the detail of  
18 how that credit would be formalized by note and  
19 agreement to counsel, or are you saying that coun-  
20 sel suggested you buy it on credit, and it hadn't  
21 been earlier agreed to by you and the persons from  
22 whom you were purchasing the stock?

23 THE WITNESS: The former part of your state-  
24 ment, I agree with. Counsel just set forth what you  
25 said in the first part of your comment.

1  
2 THE CHAIRMAN: In other words, he formalized  
3 the agreements you had reached with the sellers of  
4 the stock?

5 THE WITNESS: Correct.

6 THE CHAIRMAN: That you would buy "X"  
7 number of shares at "X" number of dollars per  
8 share on "X" terms?

9 THE WITNESS: Yes, sir.

10 BY MR. KNAPP:

11 Q The terms you had arranged with Messrs. Clark,  
12 Bouse and Gray, as I understand it, was one-half  
13 now and one-half six months from the time you made  
14 the arrangement, is that correct, Mr. Crimmins? That  
15 appears at page 177 of your January 29th interview,  
16 where you testified:

17 "They, meaning Messrs. Clark, Bouse and Gray,  
18 said, 'Pay us half now and pay us the other half sub-  
19 sequent to the first half.'"

20 Does that refresh your recollection?

21 A On page 177, I don't see any reference to what  
22 you are speaking of in terms of the second half.

23 MR. BAB: To expedite this, we have an Exhibit  
24 10-B-5 that the Exchange has put in, a letter signed  
25 by John Andrews, counsel for Clark, and Frank

PAUL FROMM, C.S.R. -- SUBJECT'S REPORT -- LA-447 7-6932

1  
2 Crimmins, dated December 23, 1968, which specifies  
3 the terms.

4 THE CHAIRMAN: Perhaps Mr. Crimmins can tes-  
5 tify that that letter correctly sets forth the terms.

6 MR. BAB: I show you Exhibit 10-B-5, Mr.  
7 Crimmins (handing to witness).

8 THE WITNESS: Yes.

9 BY MR. KNAPP:

10 Q So the arrangement was you would pay one-half  
11 of the purchase price on January 15th, on the 10,000  
12 shares, or \$175,000, and one-half six months later of  
13 \$175,000, or approximately in July, is that correct?

14 A That's correct.

15 Q Do you recall what the market value of Four  
16 Seasons stock was when the shares were first admitted  
17 to trading on the American Stock Exchange?

18 A Approximately?

19 Q Yes.

20 A I believe it was in the low fifties.

21 Q Well, would 57½ as the closing price on November  
22 12th be accurate, as reflected on Exhibit 6?

23 THE CHAIRMAN: You are referring to November of  
24 1968?

25 MR. KNAPP: Yes. Exhibit 6 indicates 57½ at the

PAUL FROMM, C.S.P. -- STENOGRAPHIC REPORTER -- BUREAU 7-6032

1  
2 close.

3 THE WITNESS: May I have the question again,  
4 please?

5 (Question repeated by reporter.)

6 A Yes.

7 Q So that you recall the price on the first  
8 block of stock, the first 10,000 shares you arranged to  
9 purchase in November of 1968?

10 A Do I recall what?

11 Q The purchase price.

12 A The stock was over the counter at the time. I  
13 believe it was around 50.

14 Q But do you recall the purchase price you agreed  
15 to pay?

16 A Thirty percent off the 50 would be \$35.

17 Q When did you make your first payment to Messrs.  
18 Clark, Bouse and Gray on account of your purchase of  
19 10,000 shares arranged in November of 1968?

20 MR. BAB: There is an exhibit on it, Mr. Knapp,  
21 which is probably a better way to get at it.

22 MR. KNAPP: Can we agree it was March 15, 1969,  
23 four months later?

24 MR. BAB: Exhibit 10-B-13 through 16 are copies  
25 of Mr. Crimmins' checks to Clark, Bouse and Gray,

PAUL FROWN, C.S.R. — STENOGRAPHIC REPORTER — LA 6047 7-5332

1  
2 to the Exchange, and they are dated March 15, 1969.  
3 It consists of four checks.

4 Q Did you ask Mr. Clark for an extension of the  
5 time for payment of the first installment which, accord-  
6 ing to the letter from counsel, was January 15, 1969?

7 A I believe I did.

8 Q And did you call Mr. Clark and ask him for the  
9 extension?

10 A I think I may have spoken to Mr. Clark, Mr.  
11 Bouse or Mr. Andrews. I am not sure.

12 Q Did you give them any reason why you needed the  
13 additional time?

14 A I believe I did.

15 Q And what was the reason you gave?

16 A I am trying to recall. This is a long time ago.  
17 I think I sold my marketable securities in Four Seasons  
18 in February. The proceeds, a good portion of the pro-  
19 ceeds, went to purchase this long-term letter stock.

20 Q Did you tell them you wished to pay the first  
21 installment out of the proceeds of the sale of free stock?

22 A No, sir.

23 Q Well, what reason did you give for requesting  
24 more time, Mr. Crimmins?

25 A I honestly can't remember.

PAUL FROMM, C.S.R. -- SIMULTANEOUS REPORTER -- Docket 7-6932

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Q Whether they didn't raise any question or remonstrate about the delay in payment?

A Not that I recall, no.

Q Do you recall what the market price of Four Seasons stock was on the day you disposed of your marketable securities? Hadn't the stock risen to \$125 a share by February 11, 1969?

MR. EAB: Again, we are probing a recollection of many years ago. We have an exhibit which we put in which gives the sales price of the free marketable securities. Isn't that the best way to get it if Mr. Knapp wants it?

THE CHAIRMAN: Yes, or you can certainly show the exhibit to the witness to refresh him with respect to these dates and prices.

MR. KNAPP: I will refer the witness to it.

MR. EAB: Do you have Respondent's Exhibit 5, please, Mr. Burns?

(Exhibit handed to the witness.)

THE WITNESS: I see where I sold my securities at 121-7/8.

MR. EAB: The witness is reading from Respondent's Exhibit 5.

THE CHAIRMAN: Mr. Crimmins, how many shares at  
PAUL FROMM, C.S.R. — STENOGRAPHIC REPORTER — SAsky 7-5912

1217

THE CHAIRMAN: I think I had 4500 shares of stock going into 1969. I gave 300 shares to charity, according to this exhibit. I had 4200 shares left which I sold at 121-7/8.

Q Therefore, you realized gross proceeds of slightly over \$500,000 on or about February 11, 1969, is that right?

A Yes.

Q Your testimony was that you used the proceeds from those sales to pay Messrs. Clark, Bouse and Gray the first installment on the 10,000 shares, is that right?

MR. EAB: It is not the testimony.

A No, it is not the testimony.

Q When did you make payment to Messrs. Clark, Bouse and Gray, on the first installment on the 10,000 shares?

A Well, the check for the transaction cleared; I paid them, as you said, in March. I am looking at a Xerox copy of four checks I wrote on March 15, 1969, for a total purchase price of \$230,000.

Q But didn't you use the proceeds from the sale of the 4200 shares of free stock in order to make the down-payment on the first block of the restricted stock?

PAUL FROMM, C.S.R. -- EXHIBIT 200270 -- Dated 7-2-82

1  
2 A That plus income taxes, yes.

3 Q Mr. Crimmins, you received, did you not, physical  
4 delivery of 10,000 shares of stock owned by Messrs.  
5 Clark, Bouse and Gray quite some time prior to the mak-  
6 ing of any payment on account of the purchase price.  
7 Is that not the fact? Your recollection seems to be very  
8 dim on these things. I am referring to Exhibit 10-B-8,  
9 a letter addressed by you, Mr. Crimmins, on February  
10 24, 1959, to Morgan Trust Company, physically enclosing  
11 10,000 shares of Four Seasons and requesting that new  
12 certificates be issued to you for 20,000 shares of Four  
13 Seasons.

14 When did you receive physical delivery from  
15 Messrs. Clark, Bouse and Gray of 10,000 shares?

16 A May I see it, please?

17 Q Yes (handing document to witness).

18 THE CHAIRMAN: Off the record, please.

19 (Discussion off the record.)

20 A To the best of my recollection, it was a letter  
21 addressed to Northern Trust by Jack Andrews, counsel for  
22 those three gentlemen, which issued instructions to Northern  
23 Trust to send me the original 10,000 shares, which I  
24 didn't request, which I put in a safe deposit box and is  
25 still there.

1  
2 Q I think you are confused. Your letter of Feb-  
3 ruary 24, 1969 states: "I am forwarding to your office  
4 the enclosed," and I repeat, "the enclosed fully endorsed  
5 certificates of Four Seasons Nursing Centers of America,  
6 totaling 10,000 shares." Then you requested that they  
7 deliver you 20,000 post-split shares. The fact is you  
8 had physical delivery, did you not, prior to February  
9 24, 1969, and prior to paying a single nickel on the  
10 purchase price of 10,000 shares owned by these three  
11 gentlemen?

12 MR. EAB: Mr. Rae, this is just argument and  
13 summation. It is obvious from the letter that he  
14 had physical possession.

15 THE CHAIRMAN: I don't know what weight the  
16 fact has been given. Did you or did you not re-  
17 ceive physical delivery before paying the first  
18 one-half down-payment in the first six months?  
19 The answer is yes or no.

20 A Yes.

21 Q Under what circumstances and where did you  
22 receive physical delivery? Were they mailed to you? Did  
23 you receive them at a meeting with Messrs. Clark, Bouse  
24 and Gray?

25 A Northern Trust mailed me the 10,000 shares



1  
2 1968, 10-B-5, and February 24th, which is the last  
3 exhibit, when Mr. Crimmins sent in his shares to  
4 the trust company, he did in fact receive the 10,000  
5 shares. The first payment was made, pursuant to  
6 Exhibits 10-B-13 through 16, on March 15, 1969.  
7 There is no dispute about it. I think it has been  
8 established. I don't know why we are wasting time  
9 on it.

10 MR. KNAPP: I will proceed to the next point.

11 THE WITNESS: May I go back to the question,  
12 because the question is not correct?

13 THE CHAIRMAN: Repeat the question, Mr. Reporter.

14 THE WITNESS: I believe the statement is wrong.

15 (Question repeated by reporter.)

16 A It is not Exhibit 10-B-5. It is Exhibit 10-B-6.

17 Q You are correct. I think we have it on the  
18 record very clearly, the physical delivery was received  
19 some time prior to the payment of any part of the purchase  
20 price.

21 During this period during which you were receiv-  
22 ing delivery of shares from Messrs. Clark, Bouse & Gray,  
23 and up until the time you made payment of the first in-  
24 stallment on the 10,000-share purchase on March 15th, you  
25 saw quite a bit of Mr. Clark, did you not?

1

2

A What do you mean by quite a bit?

3

4

5

Q Well, let me be specific. In early January, 1969, you traveled to Four Seasons' headquarters in Oklahoma City, did you not?

6

A Yes.

7

Q And who accompanied you?

8

9

A From where to where? I am trying to follow your line of questioning.

10

11

Q You were in Oklahoma City the first week in January, is that correct?

12

A Yes.

13

Q Did you visit with Mr. Clark?

14

15

A I introduced Mr. Clark to several gentlemen and a partner of mine.

16

17

Q Were those people from ILS, Investors Diversified Services?

18

A Yes, sir.

19

20

Q And how long did you spend in Oklahoma City with Mr. Clark?

21

A I believe I arrived on Friday.

22

Q Did you spend the weekend there?

23

A No, sir.

24

25

Q And from there, I believe you traveled in Mr. Clark's private plane to Miami?

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A There was quite a group which went to the Super Bowl game.

Q And you attended the game with Mr. Clark?

A No, I didn't sit with him.

Q But you accompanied him on the aircraft?

A Yes, sir.

Q Who was at the Super Bowl game? Was Mr. Santangelo there?

A We met him after the game by accident.

Q And with whom did you sit at the game?

A Mr. Andrews.

Q He being the attorney for Four Seasons?

A I believe that's correct, yes.

Q Anybody else?

A I believe Mr. Bousa went to the game.

Q And on the next day you met with officials of Gibraltar Growth Fund in Fort Lauderdale, Florida, is that correct?

A Yes.

Q And how long did that meeting last?

A When you say meeting, we had a luncheon which was attended by, I would say, approximately eight to ten or twelve people.

Q And Four Seasons was of course discussed during

PAUL SEDMAN, C.S.P. — INTERVIEW NUMBER — PAGE 7-0533

1  
2 the course of the luncheon?

3 A Not at my end of the table. It was held at a  
4 country club in Fort Lauderdale. I sat at one end of  
5 the table with one of the chaps, Roger Willoughby.  
6 Mr. Clark was at the other end of the table.

7 Q At that point, you had a fair number of your  
8 customers in Four Seasons stock, did you not?

9 A I had been buying the stock since May of 1951,  
10 yes.

11 Q Therefore, you had a natural interest in the  
12 affairs of the company and its future aspirations and  
13 plans? That would have been normal, wouldn't it?

14 A Yes, sir.

15 Q So that the matter was discussed and I suppose  
16 you listened to things and heard things which were rather  
17 interesting?

18 MR. EAB: Objection. Is the stipulation being  
19 rescinded? Are we now speaking of inside infor-  
20 mation?

21 MR. KNAPP: I will withdraw the question.

22 THE CHAIRMAN: The question is withdrawn.

23 Q Following the weekend of the Super Bowl game,  
24 you introduced Mr. Clark in New York to officials of  
25 Credit Lyonnais, according to your statement at pages

91 to 94 of your interview.

A I believe he met one chap at Credit Lyonnaise who had prior knowledge of the company dating back to May of 1968, that's correct.

Q And on January 14th, two days after the Super Bowl game, Credit Lyonnaise bought 4000 shares through you at Walston, is that correct?

A Yes.

Q On January 16, 1969, there was a Walston inter-office memo prepared by Mr. Rauschman, indicating that you and Mr. Meehan should confine your activities in Four Seasons stock to unsolicited customer transactions. Were the contents of that memorandum furnished to you?

MR. EAB: I will object and ask that that memorandum be shown to the witness. I don't believe it says what Mr. Knapp has characterized it to be.

MR. KNAPP: I will withdraw the question.

Q I will ask you whether, on or about January 16th, you were instructed by anybody at your firm to confine your activities in Four Seasons stock to unsolicited customer transactions?

A I would like to see the memo. I can't recall. If the memo went out, that is what happened.

Q Without reference to the memo, do you recall

whether any individual at Walston instructed you to cease solicitation of customer transactions in Four Seasons stock?

A To cease unsolicited transactions?

Q To cease solicited transactions and to confine your activities to unsolicited transactions.

A I guess there was a memo like it, yes.

Q Were you furnished the memo or did somebody give you these instructions verbally?

A I don't recall.

Q But the matter of the solicitation of customer accounts was called to your attention, in so far as Four Seasons was concerned, in January of 1969, on or about the 16th of January, is that correct?

MR. EAB: The witness testified he doesn't have a recollection. There is a memo which is an exhibit.

Q Was the subject of the solicitation of customer transactions in Four Seasons stock brought to your attention by anybody at Walston, by a memo, verbally or otherwise?

A Yes.

Q On or about January 16th?

A I cannot be specific on the date; I don't recall the date.

PAUL FROMM, C.S.R. — MEMORANDUM RETURNED — 2/2/74 7-6922

1  
2 Q In or about the month of January 1969?

3 MR. BAB: I don't see how Mr. Crimmins' present  
4 recollection is material. There is a memo which  
5 indicates whatever it does. I think Mr. Rauschman  
6 has testified on this point.

7 MR. KNAPP: All I want him to tell me is if  
8 it was in January of 1969. If he doesn't remember,  
9 he can say so.

10 A I said I don't remember.

11 Q You don't remember when it was?

12 A That's correct.

13 Q In January of 1969, continuing with your con-  
14 tacts, business and social, with Mr. Clark, you arranged  
15 a private placement of securities, lettered stock, of a  
16 company called Polycast Technical Corporation with cer-  
17 tain investors, is that correct?

18 MR. BAB: I will object. It goes again outside  
19 of the charges. Is this a new allegation?

20 MR. KNAPP: It has nothing to do with the charges.  
21 It has to do with the pattern of circumstances.

22 THE CHAIRMAN: I think Charge 1 relates the  
23 close relationships and services performed for the  
24 company in his activities on behalf of or with  
25 Four Seasons officials.

PAUL PRINCE, C.S.P. -- SENIOR REPORTER -- D-447 1-832

1  
2 MR. EAB: May I say this goes to the whole  
3 question of due notice, due and fair notice? There  
4 are very lengthy allegations in the charges. None  
5 of them includes what we are now apparently going  
6 into. I think it is a different charge.

7 He is not trying to put in evidence in support  
8 of the charges filed. He is making up charges as  
9 he goes along.

10 MR. KNAPP: This is Mr. Crimmins' own tes-  
11 timony, that he placed 6000 shares of lettered stock  
12 of Polycast Technical Corporation with Messrs. Clark  
13 and Bouse, is that correct?

14 MR. EAB: It is not the issue. I will object.  
15 We are going outside the scope of the charges.  
16 As to those matters, I just don't think there has  
17 been fair notice of what we are supposed to be  
18 defending.

19 MR. KNAPP: It is highly relevant to the course  
20 of conduct and the relationships.

21 THE CHAIRMAN: Mr. Knapp, you are asking him  
22 whether he arranged a private placement of stock  
23 other than Four Seasons?

24 MR. KNAPP: Yes, with Messrs. Clark and Bouse  
25 in January of 1949, specifically Polycast Technical

1  
2 Corporation.

3 THE WITNESS: How many shares did you say?

4 MR. BAD: Wait a minute, Mr. Crimmins.

5 MR. KNAPP: 6400. I refer you to your own  
6 testimony, pages 46 and 47, 3700 shares to Mr.  
7 Clark, 2700 shares to Mr. Fouse. That is your own  
8 testimony.

9 MR. BAD: If it is in his testimony why  
10 wasn't it in the charges, if they thought it was  
11 part of their claim?

12 THE CHAIRMAN: I think it still comes within  
13 the broad language of Charge 1, of the various re-  
14 lationships with the officials of this company.  
15 Do you intend to connect it, Mr. Knapp, with its  
16 suggestion that this is partially in consideration  
17 of the stock he bought, that he performed some type  
18 of services for these officials of Four Seasons?

19 MR. KNAPP: I think all of these transactions  
20 considered together cast, I think, a great deal of  
21 light as to why, of all the brokers in the United  
22 States -- and I will say it again -- Mr. Crimmins  
23 was singled out as the beneficiary of all of these  
24 shares of unregistered stock on these credit terms.  
25 I think the entire course of dealings between Mr.

PAUL FROMM, C.S.R. -- CHIEF CLERK -- SA 100 7-6932

1  
2 Crimmins and the principals of this company  
3 must be taken into account.

4 THE CHAIRMAN: I will let him answer the ques-  
5 tion. We will later determine to what extent, if  
6 any, weight should be given to his response.

7 MR. KNAPP: I think the answer is at pages  
8 46 and 47.

9 A I will answer, referring to page 47, that Mr.  
10 Nissan had some letter stock he wanted to place, and  
11 Mr. House and Mr. Clark and myself purchased letter stock  
12 in Polycast Technology. Not 3700 shares for Mr. Clark.  
13 This is the comment Mr. Knapp is referring to. It is  
14 the person conducting the interrogation, who is looking  
15 at a cross-reference sheet. There were three thousand  
16 shares purchased by Mr. Clark, two thousand by Mr.  
17 House, and I think I bought three thousand shares of  
18 letter stock in Polycast at the same time when Mr.  
19 Nissan basically outlined the company to us. We all  
20 paid the same price: \$25 a share.

21 Q Was this stock owned by Mr. Nissan or issued  
22 by Polycast Technology?

23 A I am not sure who issued it.

24 Q At that time, in early 1969, Mr. Crimmins, is  
25 it fair to say that lettered stock was far more popular

1  
2 than it is right now?

3 MR. EAB: Objection.

4 MR. KNAPP: He is a stockbroker. I believe he  
5 can answer the question.

6 THE CHAIRMAN: I don't think it is relevant.

7 Q On January 17, 1969, Mr. Crimmins, you opened  
8 up an account at Walston for Carl V. Keller, who I  
9 understand was Mr. Clark's personal pilot, is that cor-  
10 rect?

11 A Yes.

12 Q When was the first time you met Mr. Keller?  
13 Was it on the way from Oklahoma City to the Super Bowl  
14 game?

15 A No, I think it was before. It could have been.  
16 I am not sure. We are talking about 1969 right now. I  
17 find it kind of difficult to recall.

18 Q A week later, February 4, 1969, you met with  
19 Mr. Clark at a seminar conducted by Equity Research  
20 Corporation?

21 A In New York City, yes.

22 Q Shortly after that meeting, didn't you also  
23 again meet with Mr. Clark and officials of Investors  
24 Diversified Services and Credit Lyonnais, to discuss the  
25 possible participation by those institutions in Four

PAUL FROMM, C.S.R. — INTERVIEW REPORTER — 94-4632

Seasons' new franchising program?

A Incorrect.

Q But you did meet with those institutions and Mr. Clark in early February?

A When you say meet, will you define what you mean? Do you mean have dinner?

Q I don't know what the meeting was, but were you at a gathering?

A I was not at a meeting. Mr. Clark had a private meeting with these people. I only went to dinner thereafter. I wasn't at the meeting.

Q Did Mr. Clark and these people attend at the dinner?

A Yes, they did, which was hosted by another vice president of Walston.

Q It was on February 11, 1969, I think we established before, that you sold 4200 shares of Four Seasons at 121-7/8, for gross proceeds of \$508,000.

On February 27, 1969, Walston underwrote an initial public offering of securities of Four Seasons Equity Corporation through Walston, is that correct?

A I'm not quite sure of the date, but it is around that period of time, yes.

Q And you were allocated a certain portion of

PAUL PRONAM, CLERK -- INTERVIEW REPORTER -- 02-20-69 7-5922

1  
2 that underwriting for your customers, is that correct?

3 A Correct.

4 THE CHAIRMAN: What was the date?

5 MR. KNAPP: February 27, 1969.

6 Q The stock of Four Seasons Equity tripled, I  
7 believe, the first day it was traded, am I correct?

8 A I'm not quite sure what the high price was  
9 that day, but it had a very substantial premium.

10 Q And the shares which were allocated to you,  
11 you allocated to the wife and the mother of Albert  
12 Santangelo, the specialist in Four Seasons stock, an  
13 aggregate of two thousand shares of Four Seasons Equity?

14 MR. RAB: Now we are dragging in something  
15 alien that never appeared in the charges. We  
16 are going far afield. Does the Amex want to add  
17 another charge at this time? This has nothing to  
18 do with these charges.

19 MR. KNAPP: I think this is evidence of a  
20 relationship between Mr. Crimmins and the stock  
21 exchange specialist, which I think is a legitimate  
22 area of inquiry.

23 MR. RAB: You are getting very prejudicial and  
24 you are getting incorrect information from Mr.  
25 Knapp on immaterial items.

PAUL FREEMAN, CLERK -- SYNDICATED REPORTER -- R-42407 7-7022

1  
2 THE CHAIRMAN: Among the allegations and  
3 specifications in Charge 1, it relates to the  
4 course of conduct by Mr. Crimmins engaging in the  
5 solicitation and concerted efforts to promote  
6 activity in the stock of Four Seasons. If he is  
7 asking him did he allocate certain Four Seasons  
8 securities to a particular individual, I believe  
9 it is relevant.

10 MR. BAB: No, he is raising a possible free-  
11 riding and withholding question.

12 THE CHAIRMAN: You suggested it.

13 MR. BAB: Well, what other relevance has it  
14 to when he gave the stock? It is totally immaterial,  
15 outside the charges. It raises new issues which  
16 are very prejudicial.

17 THE CHAIRMAN: I think Mr. Crimmins' activities  
18 in soliciting or placing Four Seasons stock is  
19 relevant to this proceeding.

20 BY MR. KNAPP:

21 Q . Your allocation of two thousand shares to Mr.  
22 Santangelo's wife and mother, wasn't it later the subject  
23 of an NASD proceeding charging a free-riding violation?

24 MR. BAB: This is just totally prejudicial,  
25 immaterial and wholly outside the charges and the

PAUL FROMAN, C.E.P. - MEMORANDUM REPORTER - January 7-1964

report.

MR. KRAFF: I would like an answer.

MR. BAE: We can answer these on the merits, but this is neither the proper forum nor the proper place.

MR. KRAFF: I would like an answer.

MR. BAE: I object as being totally immaterial and prejudicial and changing the charges.

THE CHAIRMAN: Mr. Reporter, please read the question back.

(Question read by reporter.)

THE CHAIRMAN: Mr. Crimmins, would you answer the question.

A We filed a response to that charge, if you will. It hasn't been resolved yet. We feel we have a meritorious defense very definitely to the NASD situation.

MR. BAE: I think, in view of your ruling on my objection, it is appropriate to state, as counsel for Mr. Crimmins, that the NASD has not taken any action on that proceeding for a substantial period of time after receiving our response, and that they have approved his transfer on his registered representative application.

THE CHAIRMAN: There has been no disposition

1  
2 whatever of the allegation?

3 MR. EAB: But they have approved the transfer,  
4 which they normally do not do if there is a pend-  
5 ing serious problem.

6 BY MR. KNAPP:

7 Q I assume, Mr. Crimmins, that some time sub-  
8 sequent to February 24th, when you wrote to the transfer  
9 agent for Four Seasons, requesting delivery of 20,000  
10 post-split shares, you did receive those shares some time  
11 in the month of March 1969?

12 A Again, I don't recall what month it was, but  
13 I remember receiving the shares, yes.

14 Q Would you go along with me, on the basis of  
15 Exhibit 6, that Four Seasons stock started to trade on  
16 a when-issued basis to reflect the 2-for-1 split on  
17 February 28, 1969?

18 MR. EAB: Is there some indication of it  
19 on Exhibit 6?

20 MR. KNAPP: Yes.

21 MR. EAB: Yes, this is what it says.

22 Q Therefore, the 10,000 shares you purchased in  
23 December, which you had not paid anything on account  
24 of, was now 20,000 shares, is that correct?

25 A You said December?

1  
2 Q February 28, 1969. You now had 20,000 shares of  
3 Four Seasons stock.

4 A You said December?

5 Q You arranged the purchase?

6 A No, in November.

7 Q It was now 20,000 shares as at February 28,  
8 1969, is that correct?

9 A Yes.

10 Q You were very satisfied with the deal you had  
11 made on the first 10,000 shares, which became 20,000  
12 shares after the split, isn't that the fact, because on  
13 March 15th you asked for another 10,000 shares, is that  
14 correct?

15 MR. BAB: I will object.

16 THE CHAIRMAN: I think you have two questions.  
17 First of all, you said was he satisfied.

18 Q I will break it into two questions. You were  
19 quite satisfied on your deal of the first block of stock,  
20 10,000 shares, which became 20,000 shares post-split at  
21 \$17.50 a share? You were satisfied with that deal at  
22 the beginning of March, were you not?

23 MR. BAB: I will object to the question.

24 THE CHAIRMAN: I will let him answer the ques-  
25 tion. I think the answer is quite evident.

PAUL THOMAS, C.S.R. — STENOGRAPHIC REPORTER — 100-7-2012

1  
2 MR. EAB: I am objecting to all the charac-  
3 terizations.

4 MR. KNAPP: The witness shook his head as if  
5 to indicate he wasn't satisfied.

6 A That is another supposition. I was satisfied  
7 with my \$1.67 cost of Montgomery stock that I still  
8 owned and I was satisfied with the other purchase.

9 Q You were satisfied with the purchase at  
10 \$17.50 a share for the unregistered shares?

11 A Yes.

12 Q And for that reason you then contacted Mr.  
13 Clark and asked for another 10,000 shares, is that cor-  
14 rect?

15 A My asking for the second 10,000 shares isn't  
16 quite the way you state it.

17 Q Well, did Mr. Clark call you and say, "Frank,  
18 I want you to take another 10,000 shares off my hands"?  
19 Tell us how the whole subject came up.

20 THE CHAIRMAN: Mr. Knapp, while you do have the  
21 latitude to ask leading questions, I think you  
22 should ask him to describe the sequence of events  
23 which led to his second purchase of "X" number of  
24 shares of Four Seasons.

25 MR. KNAPP: I just asked him that.

PAUL FROMAM, C.S.P. -- STENOGRAPHIC REPORTER -- Sunday 7-5532

1  
2 Q How did the subject come up of your second  
3 purchase of 10,000 shares of Four Seasons?

4 A I think I was very impressed with the prog-  
5 ress and the growth of the company and the stated earn-  
6 ings of the company, and I requested of the same three  
7 gentlemen, in March, if I could purchase additional long-  
8 term, letter restricted stock.

9 Q Notwithstanding the fact that you had not  
10 paid one nickel on the first block?

11 A I think I gave them \$230,000 in the month of  
12 March, is that correct?

13 Q But the conversation obviously came up before  
14 you had made any payment on the first block. You didn't  
15 pay it until March 15th. Therefore, you made made a  
16 request to purchase another 10,000 shares before you  
17 paid anything on account of the first purchase, is  
18 that correct?

19 MR. BAB: This is argument.

20 MR. KNAPP: It is not argument. I think he can  
21 answer the question.

22 MR. BAB: There is no question.

23 THE CHAIRMAN: I think it is a factual ques-  
24 tion. Did you have this conversation prior to March  
25 15, 1969?

PAUL BRENNAN, C.S.R. — DEBORAH BRENNAN — 224-7-5722

1 THE WITNESS: I don't recall. It could have  
2 been that day. I just don't recall when it was.  
3

4 MR. KNAPP: We have several versions. I will  
5 go back to Mr. Crimmins' first version so we can  
6 be clear on it.

7 MR. EAB: I will move to strike it as being  
8 an improper characterization.

9 THE CHAIRMAN: Again, Mr. Knapp, is your line  
10 of questioning relevant to the charge of a viola-  
11 tion of Regulation "T," whether he had discussions  
12 leading to the purchase of a second block prior to  
13 the time on which he paid the first installment  
14 on his first purchase?

15 MR. KNAPP: We will develop it is relevant to  
16 Regulation "T" as well as to the relationships  
17 between Mr. Crimmins and Four Seasons management  
18 forming the basis of Charge 1.

19 BY MR. KNAPP:

20 Q Let's see if we can establish this clearly.  
21 Your first payment on account of the purchase arranged  
22 in November was on March 15, 1969, is that correct?

23 A Correct.

24 Q On the same day you gave Mr. Clark a down-  
25 payment of \$55,000?

PAUL FROMAN, C.S.I.L. — SYNDICATE REPORTER — L.A. City 7-6732

1  
2 A That's correct.

3 Q On account of the second purchase, which was  
4 a purchase of 10,000 shares at \$30 a share, for a total  
5 of \$300,000, is that correct?

6 A Correct.

7 Q According to Exhibit 14, I believe, the check  
8 for \$35,000, representing a 20-percent down-payment,  
9 was delivered on the same day as the three checks  
10 aggregating \$175,000.

11 A That's correct.

12 Q To refresh your recollection, is it not the  
13 fact that you made the arrangements on the second  
14 purchase prior to March 15th?

15 A I honestly cannot recall. It could have been  
16 that day.

17 Q Were the arrangements made on the very day  
18 you made the payment of the first half on the first pur-  
19 chase?

20 A It possibly could have been.

21 Q How did the 20 percent approximate down-payment  
22 on the second purchase come about? Was it discussed  
23 between you and Mr. Clark?

24 A I believe I had the funds available.

25 Q Well, did you ask Mr. Clark if it was all right

DAVID FROMAN, C.S.R. -- STENOGRAPHIC REPORTER -- CALIF. 7-4952

1  
2 with him for you to make a 20-percent down-payment? Did  
3 he suggest to you that you make the 20-percent down-  
4 payment? How did it come about?

5 A I believe I had the funds available. That  
6 is why I gave him the check.

7 Q I am talking about the arrangements concern-  
8 ing the terms of purchase, the payment. You discussed  
9 that with Mr. Clark on or about March 15th, is that  
10 correct?

11 A Yes.

12 Q What was the substance of your conversation  
13 with him?

14 A I just cannot recall the actual substance,  
15 the wordage.

16 Q Did he suggest the 20-percent down-payment?

17 A He may have, yes.

18 Q Or you might have suggested the 20-percent  
19 down-payment?

20 A I just can't recall.

21 Q Your best recollection is that Mr. Clark sug-  
22 gested the 20-percent down-payment?

23 A I didn't say it.

24 Q Well, what is your best recollection?

25 A I just said I just can't recall the exact

wordage that took place on that day.

Q I refer you to page 12 of your interview:

"Question: Can you try to recollect exactly what you told Mr. Clark with respect to the down-payment?

"Answer: I believe I told him I would like to give him a check for \$55,000 as down-payment on the commitment of the second 10,000 shares of stock that I agreed to purchase privately from him and his two partners."

Does that refresh your recollection as to whether or not the initiative for the payment provisions came from you or from Mr. Clark?

A I believe if you go up two lines or four lines, you will get an answer which I just gave: "I believe I had the excess cash at that particular time and I wanted to make a down-payment on the second commitment."

Q Now about the language, "I told him I would like to give him a check for \$55,000 as a down-payment on the commitment"? Didn't the initiative come from you, Mr. Crimmins?

A I just said I had the excess cash at the time.

Q But this was perfectly satisfactory to Mr. Clark?

A I received a letter subsequently, if you go

1  
2 on and read this, from his attorney, spelling out the  
3 arrangements for the deal.

4 Q But the arrangements were perfectly satis-  
5 factory to Mr. Clark, is that correct?

6 A He was very happy to get those checks.

7 Q Can you tell us the significance, if any, of  
8 the fact that your \$55,000 check, representing an  
9 approximate 20-percent down-payment on the second pur-  
10 chase, was not deposited by Mr. Clark until April 7,  
11 1969, and I show you the photocopy of the back of the  
12 check?

13 MR. PAB: I object. How can he possibly know  
14 what Mr. Clark had in mind, what happened or what  
15 was done?

16 MR. KRAFF: Maybe I should ask another ques-  
17 tion and you will find out.

18 MR. PAB: Ask Mr. Clark, if you are really  
19 interested in knowing.

20 Q Would you agree with me that the \$175,000 in  
21 three checks on March 15th, according to the endorse-  
22 ments on the back, were deposited in the month of March  
23 and that the \$55,000 check was held until April 7, 1969,  
24 is that correct?

25 A I have no way of knowing it.

PAUL FROMM, C.R. -- SIMON'S REPORTER -- PABBY 7-0032

1  
2 THE CHAIRMAN: Was there any agreement or  
3 understanding you had with him that he would  
4 not immediately deposit your check?

5 THE WITNESS: No, sir.

6 Q April 7, 1969, was the date, was it not, on  
7 which Four Seasons announced its intentions to go into  
8 the franchising of nursing centers?

9 A I am not sure now.

10 Q You remember the month of April 1969, do you  
11 not? There was a lot of activity in Four Seasons stock  
12 at that time. Do you recall it? Do you want to look  
13 at the volume figures to refresh your recollection?

14 A I would be happy to look at the figures.

15 Q On April 7th, there was an announcement of  
16 a franchising program. Do you recall it?

17 MR. EAB: Is there a document or exhibit  
18 which establishes it? Mr. Crimmins says he doesn't  
19 recall the precise date four years ago when it was  
20 done.

21 MR. KNAPP: I will withdraw the question.

22 THE CHAIRMAN: Let us take a short recess.

23 (Short recess taken.)

24 THE CHAIRMAN: Back on the record.

25 You may resume, Mr. Knapp.

PAUL FROWN, C.S.R. — SHAW-WALKER REPORTER — B.A. 7-5932

1  
2 BY MR. KNAPP:

3 Q Coming back to your second purchase of un-  
4 registered stock from Messrs. Clark, Bouse and Gray,  
5 Mr. Crimmins, I note from Exhibit 6 that the closing  
6 price of Four Seasons stock on March 14th, Friday,  
7 on a when-issued basis, was 47-3/4.

8 Using your own criteria of roughly a 30-percent  
9 discount from market as the purchase price of lettered  
10 stock, wasn't your purchase at \$30 reflecting a discount  
11 substantially larger than 30 percent? Say around 40  
12 percent? I am talking of the second purchase.

13 A The price was approximately the same percent-  
14 age.

15 Q Is it your testimony that the second purchase  
16 reflected the same percentage discount as the first  
17 purchase, 30 percent below the market at the time the  
18 agreement was reached on the sale?

19 THE CHAIRMAN: It is a mathematical calcula-  
20 tion. He paid so much for so many shares and the  
21 current market as of that date was a certain price.

22 MR. KNAPP: He was not sure of the date the  
23 arrangements were made. He said it is quite pos-  
24 sible they could have been made on the very day  
25 that the first payment was made of \$55,000. If that

PAUL FROMM, C.S.R. — CRIMINAL REPORTER — Docket 7-6922

1  
2 is the case, the discount was substantially higher  
3 than 30 percent.

4 MR. DAB: Exhibit 6 indicates that the price  
5 in that period had declined somewhat from what it  
6 had been on the previous purchase and Mr. Crimmins'  
7 purchase price was somewhat less.

8 THE CHAIRMAN: Mr. Crimmins, was it your recol-  
9 lection, on the day you arrived at an agreement  
10 with these gentlemen to buy the stock, that you  
11 were purchasing at an approximate 30-percent dis-  
12 count?

13 THE WITNESS: Approximately, but they put the  
14 price on as to what they wanted for the stock. It  
15 was approximately 35 percent.

16 THE CHAIRMAN: But are you testifying that they  
17 prescribed the price? It wasn't a matter of bargain-  
18 ing and you said, "I will pay you so much"?

19 THE WITNESS: That's right.

20 Q What you are saying, based on a 30-percent dis-  
21 count, is that the market price was approximately \$43  
22 at the time you agreed to purchase the second block for  
23 \$30?

24 A I didn't say that.

25 Q Approximately. Is that a fair statement?

PAUL BROWNA, C.S.R. — INTERVIEW REPORTER — D-4447 7-5922

1  
2 A I couldn't follow the question. Could you  
3 please repeat it?

4 (Question repeated by reporter.)

5 Q Well, \$30 is 70 percent of \$43. Would you agree  
6 on that?

7 MR. BAB: I think the testimony has been given.  
8 Now we are arguing about how you make different com-  
9 putations.

10 MR. KNAPP: I want to demonstrate it was a  
11 very, very favorable deal here.

12 MR. BAB: The numbers are here.

13 THE CHAIRMAN: To the best of your ability,  
14 Mr. Crimmins, you may answer the question.

15 MR. BAB: Please read back the question, Mr.  
16 Reporter.

17 (Question read by reporter.)

18 MR. BAB: It is not what he testified to at  
19 all. It is a mischaracterization of what he said.

20 THE CHAIRMAN: Why don't you correct the record,  
21 Mr. Crimmins?

22 MR. BAB: Is the question, how was the price  
23 set for the second purchase? Is that your question?

24 THE CHAIRMAN: You will have to ask counsel.

25 MR. BAB: That is my problem.

PAUL FROMM, C.E.R. — DIRECTOR REPORTER — BUREAU 7-6332

1  
2 MR. KNAPP: I would like to find out from the  
3 witness what the criterion was for setting the price  
4 on the second block.

5 Q Was it 70 percent of the market?

6 A Ask Mr. Clark. He made the computation and  
7 picked a price of \$30 a share.

8 Q You had to make a decision as to whether or not  
9 you wanted to accept the offer, is that correct?

10 A Yes.

11 Q What criteria did you use as to whether or not  
12 to accept the \$30 price? Did you base it on some per-  
13 centage of the then market price?

14 A It was approximately the same discount as the  
15 first purchase.

16 Q Therefore, the stock would have been around \$43  
17 a share in order to justify a \$30 price for restricted  
18 stock.

19 MR. EAB: That is argument.

20 MR. KNAPP: I think it is pretty clear. I want  
21 to ask the witness when, between the beginning of  
22 February 1969 and March 14, 1969, from Exhibit 6,  
23 Four Seasons was ever as low as \$43 a share.

24 MR. EAB: I will object to this. It is an  
25 argument put forward by Mr. Knapp, from which he

PAUL FREEMAN, C.S.P. — DIRECTOR, SECTIONS — Docket 7-5712

1  
2 brings in a piece of paper.

3 THE CHAIRMAN: I have to agree with Mr. Bab.

4 I think you are getting into argument. I think the  
5 panel has a good grasp on the facts related to these  
6 purchases. I think the materiality is getting hazy.

7 BY MR. KNAPP:

8 Q At or about the time the arrangements were made  
9 on the second block of 10,000 shares, it is fair to say  
10 you were in pretty close and continuous contact with Mr.  
11 Clark, were you not?

12 A What do you mean?

13 MR. KNAPP: I will withdraw the question.

14 Q You opened a brokerage account for Mr. Clark  
15 some time in September of 1968, is that correct?

16 A Correct.

17 Q I refer you to 10-A-3, a two-page summary of Mr.  
18 Clark's brokerage account which was opened and serviced  
19 by you, is that correct? Do you have a copy of that  
20 exhibit before you?

21 A Yes, sir.

22 Q I see approximately 27 or 28 purchase trans-  
23 actions in securities on that exhibit, involving aggregate  
24 purchases by Mr. Clark of somewhere in excess of \$500,000.  
25 Would you agree I am substantially correct, or would you

PAUL FRONZA, C.S.A. — STENOGRAPHIC REPORTER — R-6032

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prefer the exhibit to speak for itself?

A If you could run the computations on it, it would be fine.

Q Before you would purchase or sell a stock in his account, was it your practice to contact him for his approval?

A Absolutely.

Q So that, therefore, each purchase or sale transaction required a telephone conversation with Mr. Clark?

A That's correct.

Q And that would have been continuously during the period from January 14, 1969 to March 11, 1969 on the transactions indicated on Exhibit 3?

A You said January. I think the first transaction is October of 1968.

Q I am referring to the volume of activity, which seems to be concentrated pretty much from January 14th on.

MR. EAB: The document speaks for itself. I think the characterizations by Mr. Knapp are not appropriate.

MR. KNAPP: I just want to establish that each transaction was accompanied by a telephone call and

PAUL FROWNA, C.S.E. -- STENOGRAPHIC REPORTER -- MEETING 7-6112

1  
2 a conversation with Mr. Clark.

3 Q Is that correct?

4 A I think you have added up each individual post-  
5 ing, but a lot of these are one transaction on one day.  
6 There are five postings of one transaction on one stock  
7 in one day. It is not five transactions. It is one  
8 transaction that is posted because of the fractional  
9 differences in the price paid.

10 Q Even according to your version of it, Mr.  
11 Crimmins, I see approximately six trades in the period  
12 between January of 1969 and March of 1969, is that cor-  
13 rect?

14 A What were the dates again?

15 Q Between January 1969 and March 1969.

16 A Yes, six trades.

17 Q Was it your practice to call Mr. Clark, to keep  
18 him apprised of the current status of his account, the  
19 prices of securities in which he had positions?

20 A Yes, if it warranted it.

21 Q Well, how many telephone conversations would  
22 you estimate you had with Mr. Clark during this period?

23 A I cannot recall it today.

24 Q Exhibit 6 of November 25th, Exhibit 10-A-6,  
25 indicates that in January 1969 you opened an account

PAUL FROMAN, C.I.R. - SUBJECT'S BROTHER - Bday 7-21-12

1  
2 for Mr. James P. Linn.

3 MR. BAB: If you are speaking of an exhibit,  
4 let him see what you are talking of.

5 Q I show you Exhibit 6 and I ask you the source  
6 of the information that Mr. Linn was president of Four  
7 Seasons Franchising Corporation?

8 A This was written in subsequent to this account  
9 being opened, in Longhand.

10 Q When you say "this," you mean his affiliation?

11 A It says "Corporation and name of concern con-  
12 nected with."

13 MR. BAB: Read the whole thing.

14 THE WITNESS: The exhibit is a new account form  
15 filled out, dated January 3, 1969. The address is  
16 Amazillo, Texas, of Mr. James P. Linn. I was the  
17 account executive of the account.

18 MR. BAB: There is some longhand writing. Would  
19 you read it, the date and so on.

20 THE WITNESS: I think it says 11-25-69. Then  
21 some longhand, and it is written in "Four Seasons  
22 Franchising Corporation, President."

23 BY MR. KNAPP:

24 Q When you opened the account, as far as you knew,  
25 what was Mr. Linn's occupation?

PAUL WILSON, C.S.E. -- STENOGRAPH REPORTER -- Docket T-2052

1  
2 A He was a district attorney in Hanford County,  
3 Texas.

4 Q But you did know some time in February 1969  
5 that Four Seasons was contemplating setting up of a  
6 franchising subsidiary, did you not?

7 A It is not true.

8 Q I refer you to paragraph 8 of your own letter  
9 dated December 2, 1969, written to Mr. Foser, vice  
10 president of the American Stock Exchange.

11 MR. EAB: Would you read the paragraph for the  
12 record, Mr. Crimmins.

13 Q Having refreshed your recollection from Exhibit  
14 8, Mr. Crimmins, do you recall now whether or not the  
15 subject of a franchising program for Four Seasons was  
16 brought up in the month of February 1969?

17 MR. EAB: That is a little bit different than  
18 the initial question asked. You have changed the  
19 question. Will you restate it as a direct question?

20 MR. KNAPP: I have just asked him the question.

21 MR. EAB: I object. He has changed what he  
22 asked previously.

23 THE CHAIRMAN: What are you attempting to es-  
24 tablish on this particular line of questioning?  
25 That at the time he opened the account, he con-

PAUL NORMAN, C.S.R. — DIRECTOR, BOSTON — 1-2-74

1  
2 templated this gentleman would later become an  
3 officer of the franchising corporation?

4 MR. KNAPP: It was an inside trade solicited  
5 by Mr. Crimmins of Mr. Linn, who was the president  
6 of the franchise subsidiary, three weeks prior  
7 to the public announcement which Mr. Crimmins in  
8 his own letter concedes was on April 7th; a pur-  
9 chase by the president of this company, solicited  
10 by Mr. Crimmins three weeks before the announce-  
11 ment, followed by a sale right after the announce-  
12 ment at a very substantial profit.

13 THE CHAIRMAN: Mr. Knapp, I have to remind you,  
14 and maybe I misunderstood your response, that some  
15 several days ago, in our questioning as to whether  
16 any portion of the charges in this proceeding, par-  
17 ticularly specification 1, was alleging that Mr.  
18 Crimmins ever engaged in an improper insider trans-  
19 action or divulged insider information of Four  
20 Seasons improperly, I understood you to say no, it  
21 was not being charged in this proceeding.

22 MR. KNAPP: It is not being charged, but if  
23 there is evidence indicating that Mr. Crimmins may  
24 have been in a position, because of his relationship,  
25 to have had access to inside information and used

1  
2 it, it is certainly relevant, although the charges  
3 hang upon proof of material inside information  
4 being used. It is certainly relevant to the pattern  
5 of Circumstances showing relationships with the  
6 insiders in Four Seasons and their affiliated com-  
7 panies.

8 MR. BAB: I can only say that the question on  
9 the record is objectionable on at least four separate  
10 and independent grounds.

11 More importantly, I think what Mr. Knapp has  
12 now said is a perfect example of what is wrong with  
13 this Charge 1 and what is wrong with this whole  
14 proceeding the Amex has brought. The charges change.  
15 Every day there is something different. You just  
16 can't pin it down to know what it is we are defend-  
17 ing against.

18 I think quite clearly there are two places in  
19 the record where Mr. Knapp stipulated the insider  
20 transactions are not a part of this case. Sud-  
21 denly, on the third day of the hearing, he changes  
22 back. Now he decides it is indeed an aspect of this  
23 case.

24 How can a defendant possibly prepare a defense  
25 to a charge under those circumstances?

1  
2 THE CHAIRMAN: Mr. Knapp, are you saying that  
3 this witness was in a position to obtain inside  
4 information but he didn't necessarily use it?

5 MR. KNAPP: That is precisely my position.

6 THE CHAIRMAN: Are you saying that if a per-  
7 son is in a position to receive and does indeed  
8 receive inside information, yet does not divulge  
9 this, that he still violates the American Stock  
10 Exchange rules by being in receipt of the infor-  
11 mation despite making no use of it?

12 MR. KNAPP: No. If you read the charges,  
13 you will note that as part of the course of con-  
14 duct, Mr. Crimmins, under all of the circumstances,  
15 in the context of the special relationships, his  
16 heavy indebtedness to the principals of Four  
17 Seasons, his close and continuing relationship  
18 with them when his firm was Four Seasons' principal  
19 investment banker, and the position he was in to  
20 receive inside information, although he may not  
21 have received it, tended to create a situation  
22 where he gave the appearance of a conflict between  
23 his own personal interests and those of the invest-  
24 ing public.

25 It has always been a very clearly-stated

PAUL FUCHS, C.M.A. -- SENIOR ACCOUNTANT -- 1940/1941

1  
2 Exchange principle or policy in these business  
3 ethics cases that an Exchange member not only is  
4 bound to observe well-known legal principles  
5 affecting the trading in securities, but he also  
6 is under an obligation to avoid activities which  
7 give an appearance of impropriety as well.

8 The fact that his very intimate business and  
9 social contacts constantly were maintained with  
10 all of these people, in the framework of constant  
11 communication, constant contact, a stock purchase  
12 on terms which, if not a gift, borders on that of  
13 a gift, makes it very relevant to go into a trad-  
14 ing transaction at a substantial profit with one  
15 of the top officials of a Four Seasons subsidiary  
16 just prior to a significant public announcement  
17 of corporate news which led to a very substantial  
18 appreciation in Four Seasons stock.

19 The panel can attach such weight to it as it  
20 deems appropriate in the light of all of the cir-  
21 cumstances.

22 THE CHAIRMAN: I will permit the witness to  
23 answer the question, basically, in order to estab-  
24 lish was he in a position and was his relationship  
25 such that he might have been privy to certain

PAUL HOGAN, C.E.O. - LAWYER CRIMMIN - DATED 7-2-82

1 confidential corporate information.

2 Pursuant to your own dialogue, Mr. Knapp, it is  
3 not for the purpose of indicating he made any im-  
4 proper use of it. If it is felt relevant to estab-  
5 lish the nature of his relationships with the  
6 Four Seasons management and the type of informa-  
7 tion he was able to receive pursuant to that re-  
8 lationship, I make no judgment as to whether it  
9 violates anything. However, if that is a specifi-  
10 cation here, that factual line may be developed  
11 factually, if that is what you are attempting  
12 to establish.

13 MR. KNAPP: I am saying it is highly relevant  
14 to Charge 1, basically.

15 MR. BAB: Is what Mr. Knapp is addressing him-  
16 self to -- which of the three possible propositions  
17 is he referring to? He had access. He had in-  
18 formation. He used information. Are any of those  
19 three, all three, or some of those three the charge  
20 being leveled against Mr. Crimmins? After the third  
21 day of hearing, I still do not know.

22 MR. KNAPP: I can answer it.

23 MR. BAB: I have asked many times.

24 MR. KNAPP: He was in a position to receive

1  
2 inside information.

3 MR. RAB: There is no charge that he had in-  
4 side information, is that correct, or is it incor-  
5 rect?

6 MR. KNAPP: I will let the charges speak for  
7 themselves.

8 MR. RAB: We are entitled to know what we are  
9 being charged with. Either Mr. Knapp doesn't know  
10 or he is keeping it a big secret. In either case,  
11 it is unfair notice and a violation of every rule  
12 I know of. How can we defend if we don't know what  
13 we are charged with?

14 THE CHAIRMAN: We have deferred a ruling, I  
15 think proposed by your associate, as to dismissing  
16 this charge in specification 1. Specification 1  
17 didn't give rise to a violation of law. We de-  
18 ferred any ruling on it, according to my recol-  
19 lection. After further evidence is adduced, we  
20 will have time to establish the type of relation-  
21 ships described, and you will be entitled to re-  
22 new that motion.

23 MR. RAB: Thank you.

24 THE CHAIRMAN: In the meantime, it does fol-  
25 low the line of establishing the relationships

1  
2 which they described in specification 1, whereby  
3 they assert those relationships give rise to a  
4 violation of American Stock Exchange regulations.

5 MR. RAB: If Mr. Knapp will not specify whether  
6 the charge is access or possession, are we required  
7 to go forward and disprove possession? I suppose  
8 if it is a charge, we should be required to do so.  
9 If it is not a charge, then we are wasting every-  
10 body's time.

11 All I am trying to find out is what is the  
12 charge so we know what we have to respond to. I  
13 frankly think I am entitled to have the panel  
14 direct Mr. Knapp to tell us which of those three  
15 matters I have alluded to is indeed the charge  
16 made against Mr. Crimmins.

17 THE CHAIRMAN: If it is your opinion that  
18 none of the facts related in the specification,  
19 even assuming they are true, give rise to any vio-  
20 lation of law or Exchange regulation, there would  
21 be little reason, I would think, that you would  
22 think it was necessary to rebut those.

23 MR. RAB: That may be conceptually so. As  
24 a practical matter, we just cannot gamble that  
25 the panel will agree with our interpretation. Since

PAUL FROMAN, C.S.P. -- INTERVIEW REPORT -- 10/1/72

1  
2 our motion was denied on the law, assuming all  
3 those facts to be in evidence, as the panel must  
4 assume in deciding the motion, we don't know  
5 whether we have to go forward on this question of  
6 whether, indeed, he had possession of inside infor-  
7 mation?

8 THE CHAIRMAN: Mr. Bab, as you know, you are  
9 charged with engaging in an unfair and inequitable  
10 course of conduct, being the quasi-regulatory  
11 standards of the American Stock Exchange as well  
12 as other national securities exchanges. I don't  
13 think it is possible for me to recite every fact  
14 that would give rise to a violation of that stan-  
15 dard of conduct.

16 After the evidence is adduced and the totality  
17 of the conduct, the relationships and the transac-  
18 tions are engaged, it will be for this panel to  
19 determine whether to think that conduct is of such  
20 a nature to be, in our view as businessmen and  
21 persons engaged in this industry, to have been  
22 unfair, inequitable and not to meet the standards  
23 that all of us have to conform with as being mem-  
24 bers of this Exchange. I don't think I can be  
25 any more explicit.

1 MR. EAB: There is a very narrow, specific  
2 allegation. There are two possibilities.

3 I don't understand why Mr. Knapp, after how many  
4 years of investigation, two years since the report  
5 was written, is not in a position to say whether  
6 or not the Exchange is now charging Mr. Crimmins  
7 with possession as opposed just merely to access.  
8 I think the panel could probably recognize there  
9 is a significant difference. If Mr. Knapp doesn't  
10 know now what he is prepared to prove and what he  
11 is prepared to charge, I submit we are all wast-  
12 ing everyone's time.  
13

14 MR. KNAPP: I think you are entitled to an  
15 answer to his question. I am tracking Charge 1  
16 which states: "Mr. Crimmins established a close  
17 personal and business relationship with principal  
18 officers of FBI commencing in the summer of 1968  
19 and thereafter he maintained frequent and close  
20 contacts with such officers throughout most of the  
21 period covered by the report. He opened and ser-  
22 viced brokerage accounts for these officers at  
23 Walston."

24 I am in the process of going into, very briefly,  
25 if I can, the whole course of conduct involved with

1  
2 the brokerage accounts, including this Linn pur-  
3 chase of Four Seasons stock before a significant  
4 announcement.

5 Following along the lines of the charges, he,  
6 Mr. Crimmins, was active in assisting FSN and its  
7 affiliates in arranging certain financings. As  
8 a result of this relationship, Mr. Crimmins  
9 frequently was in a position to obtain information  
10 concerning Four Seasons which had not been pub-  
11 licly disclosed.

12 THE CHAIRMAN: Mr. Knapp, do you contend  
13 that the witness here solicited this particular  
14 transaction?

15 MR. KNAPP: It is conceded by the witness  
16 himself.

17 THE CHAIRMAN: With knowledge that a material  
18 corporate announcement was about to be made? Is  
19 that your contention?

20 MR. KNAPP: I will develop it and let that  
21 conclusion be for the panel.

22 THE CHAIRMAN: Is that what you hope to estab-  
23 lish?

24 MR. KNAPP: Yes, and I will let the panel make  
25 a determination on it. I want to show the facts

1  
2 and circumstances.

3 MR. BERMAN: You are referring to the Linn  
4 purchase. If I understand you correctly, you  
5 said he was an insider in Four Seasons?

6 MR. KNAFF: He was the president of Four  
7 Seasons Franchising Centers, an affiliate company  
8 of Four Seasons set up some time in January or  
9 February of 1969, which was the vehicle for Four  
10 Seasons entering the franchising business, which  
11 was announced -- and Mr. Crimmins concedes it  
12 in his letter of December 7th -- for the first  
13 time publicly on April 7, 1969.

14 The record will show there was a tremendous  
15 amount of trading activity before and after that  
16 announcement, with a very sharp rise in the price  
17 of Four Seasons stock following the announcement.  
18 From that point on, Four Seasons went to its all-  
19 time high of 160 on a pre-split basis and 91  
20 on a post-split basis.

21 MR. BERMAN: Well, do you mean to indicate  
22 that Mr. Crimmins, as a broker for Walston, had  
23 more information than Mr. Linn and that Crimmins  
24 solicited the order from Linn rather than Linn  
25 coming to him and giving the order?

1  
2 MR. KNAPP: I am taking Mr. Crimmins' own  
3 testimony, in which he stated he thought the stock  
4 was going to have a lot of action and that Linn  
5 should buy it. It is page 149. This is Mr.  
6 Crimmins' answer:

7 "I think it was purely a market situation.  
8 I don't think Jimmy had owned any stock in Four  
9 Seasons, to my knowledge. I thought the stock  
10 was going to enjoy a pretty substantial appreci-  
11 ation in price and I said he ought to buy some  
12 stock."

13 These transactions with Mr. Linn -- and this  
14 is conceded -- occurred on March 21st to March  
15 28, 1969. Mr. Crimmins, in his December 2nd letter  
16 in writing, signed by him, conceded the announcement  
17 was made of the franchise program, of which Mr.  
18 Linn was the chief officer, on April 7, 1969.

19 MR. BAE: This has been a scattergun of  
20 misrepresentations and it is right in the record.  
21 If you will look at page 147, you will see the  
22 date on which Mr. Linn joined the Four Seasons  
23 organization, which is several months after.

24 MR. KNAPP: I am answering Mr. Berman's ques-  
25 tion.

1 THE CHAIRMAN: Come to order a moment.  
2  
3 Gentlemen, speak one at a time. The panel has  
4 difficulty under these circumstances and certainly  
5 the reporter does. Mr. Knapp, when you finish,  
6 Mr. Bob will have the fullest opportunity to  
7 answer.

8 MR. KNAPP: If you look at Exhibit 6, dur-  
9 ing the month of March Four Seasons ranged be-  
10 tween a low of 46 and a high of 64. The 64 level  
11 was reached approximately a week before the fran-  
12 chise announcement.

13 When the franchise announcement was released  
14 on April 7th, there was a halt in trading for a  
15 few hours. The stock climbed all the way up into  
16 the 70's, reaching a high of 76, at which time  
17 Mr. Linn, who had taken his position between 48  
18 and 50 in March, sold out his 3600-share position.

19 MR. HERMAN: You claim Mr. Linn was essen-  
20 tially an insider?

21 MR. KNAPP: Yes.

22 MR. HERMAN: And you seem to claim that Mr.  
23 Crimmins had inside information?

24 MR. KNAPP: I didn't say that.

25 MR. HERMAN: You seem to be building up to

PAUL HOGAN, GBL - FLETCHER REPORTER - 22 May 7-6932

1  
2 this point.

3 MR. KNAPP: I am letting Mr. Crimmins' state-  
4 ment stand on its own weight. These are his  
5 words: "I thought the stock was going to enjoy  
6 a pretty substantial appreciation in price and  
7 I said he ought to buy some stock." That is a  
8 solicited order from Mr. Linn, based upon Mr.  
9 Crimmins' belief that the stock was going to  
10 enjoy a pretty substantial appreciation in price,  
11 and one week before an announcement of great  
12 significance.

13 MR. BERMAN: To clarify it in my mind, you  
14 are saying that Mr. Crimmins might have been privy  
15 to some information in recommending the stock  
16 to Mr. Linn, who was an insider of the company  
17 at the time?

18 MR. KNAPP: I think that is an accurate state-  
19 ment.

20 THE CHAIRMAN: That is what you wish to ex-  
21 plore in your interrogation?

22 MR. KNAPP: That's correct.

23 MR. BERMAN: But that Mr. Linn did not know  
24 this?

25 MR. KNAPP: I cannot say what Mr. Linn knew

1 or did not know, because we haven't examined him.  
2 He is not under our jurisdiction. I will say,  
3 of course, that he was, according to the account  
4 form, the president or the president-designate of  
5 the Four Seasons franchising operation.  
6

7 THE CHAIRMAN: Mr. Knapp, aren't you really  
8 telling us that among the matters that are going to  
9 be presented to us here, there is certainly the  
10 possibility that you are suggesting or indeed  
11 attempting to establish through evidence presented  
12 through the testimony, perhaps of Mr. Crimmins,  
13 that he did have inside information, and with that  
14 he recommended the stock, which is just an improper  
15 use of insider information, if you can establish  
16 it?

17 We had understood earlier that that line or  
18 that type of evidence really wasn't the subject  
19 of this charge, as I understood it. I think the  
20 panel members agree with me. We went through a  
21 rather lengthy dialogue about it the other day when  
22 certain questions arose.

23 Or are you telling us that this is one of the  
24 many things or relationships or possible activities  
25 he may have engaged in? It is up to you to prove

PAUL FROMAN, CLERK ... SHAW-WALKER REPORTER -- SHAW-WALKER 7-4932

1  
2 it.

3 MR. KNAPP: I think that hits the nail on  
4 the head. I think I made it very clear that  
5 proof of guilt on these charges does not rest upon  
6 the illegal use of inside information.

7 THE CHAIRMAN: Standing alone?

8 MR. KNAPP: Standing alone.

9 THE CHAIRMAN: But it may be one of the  
10 various factors or activities he may have en-  
11 gaged in?

12 MR. KNAPP: Access or use of inside infor-  
13 mation, if it is established -- and I leave the  
14 conclusions to the panel -- is relevant to the  
15 pattern of circumstances making up the basis of  
16 Charge 1, highly relevant.

17 THE CHAIRMAN: I think I now understand you.  
18 I must say I misunderstood you the other day.

19 MR. PAB: I think this is outrageous at this  
20 point. They have had this report. They had a  
21 full inquiry. They have been preparing this thing,  
22 they say, for two years, and Mr. Knapp is not now  
23 prepared to say whether the Anax is charging use  
24 of inside information. I am not even clear if they  
25 are charging that he had any in his possession as

PAUL FROMAM, C.S.R. -- SENIOR REPORTER -- Monday 7-20-61

opposed to access.

THE CHAIRMAN: At the same time, it must have been clear to you and Mr. Crimmins for all these months that these specifications certainly would go into literally all of his relationships and transactions with the insiders of Four Seasons and would certainly explore into his activities in Four Seasons with customers as well as for his own account.

Obviously, during the course of exploring these activities and relationships, I am certain that it could not be unexpected that if he had certain material information as a result of those relationships and used it or did not use it in connection with customer transactions, it could very well arise during the course of these proceedings. You wouldn't be totally unprepared or be surprised if that occurred during the course of the hearings.

MR. BAB: I will try and tell you exactly the basis for what I am saying. Sure, there are a lot of background facts which may come out at the hearing.

At some point, however, the administrative  
FAM. FORM, C.R.R. -- SERVICE REPORT -- 2/2/77 7-5733

1  
2 Mr. Linn's account for \$75 a share.

3 THE CHAIRMAN: Whatever you are saying is  
4 obviously not evidence. I appreciate your trying  
5 to enlighten us. I will permit you to resume your  
6 questioning of Mr. Crimmins with respect to this  
7 transaction. Counsel, you are free to renew your  
8 motion at a later time.

9 BY MR. KNAPP:

10 Q Mr. Crimmins, in addition to the three thousand  
11 shares purchased before April 7th for Mr. Linn, you also  
12 purchased shares for Mr. Julian D. Helms, for whom you  
13 maintained an account, is that correct?

14 A Yes. What date was it that he purchased the  
15 stock?

16 Q Mr. Linn, between March 21st and April 3, 1969.  
17 You also maintained an account for Mr. Julian D. Helms,  
18 is that correct?

19 A Yes.

20 Q Who subsequently became a vice president of Four  
21 Seasons Franchise Centers?

22 A I believe he and Mr. Linn joined the company  
23 in the late summer of that year. That is the thing the  
24 record should note. They were attorneys in the State of  
25 Texas during this time and did not have any affiliation

1  
2 significance as to this transaction, perhaps you  
3 could have your associate place a call to Walston  
4 and just verify it. I believe Mr. Bab will be  
5 satisfied, as to their monthly statements, whether  
6 the dates reflect settlement dates or trade dates.  
7 I think we ought to have it absolutely clear for the  
8 record.

9 MR. BAB: Just for the record, I would say the  
10 whole thing is totally immaterial. I don't see what  
11 relevance it has to anything. Whatever it is, it is.

12 THE CHAIRMAN: Subject to that connection, Mr.  
13 Knapp, you may continue.

14 BY MR. KNAPP:

15 Q Mr. Crimmins, I refer you, so there will be no  
16 question about it, to page 24 of your November 25, 1969  
17 testimony. I refer you to line 9, at your initial inter-  
18 rogation by an Exchange representative:

19 "Question: How did you pay for the shares," re-  
20 ferring to the unregistered shares purchased from Messrs.  
21 Clark, Bouse and Gray.

22 "Answer: How did I pay for them?

23 "Question: Yes.

24 "Answer: I wrote out a check.

25 "Question: You didn't borrow any money to pay

PAUL FROMM, C.S.R. — NEWTIPS REPORTER — BANCROFT 7-6732

1  
2 for them?

3 "Answer: No, but I sold some securities to  
4 pay for them.

5 "Question: But it was a cash transaction?

6 "Answer: Yes.

7 "Question: Is there any amount, either from  
8 that or anything else, owing between you, on the one  
9 hand, and Messrs. Clark, Bouse or Gray, on the other?

10 "Answer: Let me hear that again.

11 "Question: Do you owe Mr. Clark any money or  
12 does he owe you any money?

13 "Answer: I owe Mr. Clark, Mr. Gray and Mr.  
14 Bouse some moneys on my second commitment, which I am  
15 paying six percent interest on.

16 "Question: That is the second 10,000 shares?

17 "Answer: That's correct. I paid half of it off.  
18 I owe the balance."

19 That was elaborated on at line 19 by you:

20 "Answer: The first 10,000 shares I paid for  
21 and I think half of the second 10,000.

22 "Question: Was that half of the second 10,000  
23 paid at the time of the transaction?

24 "Answer: Yes, sir."

25 Mr. Crimmins, was not the clear purport of your

PAUL FROMM, C.S.R. — MEANS TYPE REPORTER — LANCING 7-4912

1 testimony, which I have just read, that you had paid  
2 \$350,000 to Messrs. Clark, Bouse and Gray, represent-  
3 ing the full purchase price on the first block, and  
4 \$150,000 on the second purchase, representing half,  
5 for a total of \$500,000? Was that not the clear  
6 purport of your testimony, and that you then owed  
7 \$150,000 to Clark, Bouse and Gray?  
8

9 MR. EAB: I object to the question. The tes-  
10 timony is here and has to be read in context. I  
11 think we responded to this in the answer. This is  
12 Mr. Crimmins' testimony. He was wrong. He made  
13 a mistake.

14 MR. KNAPP: Mr. Eab is not under oath.

15 MR. EAB: I am objecting to the form of the  
16 question as being improper.

17 THE CHAIRMAN: I think the statements speak for  
18 themselves and therefore the transcript. I assume  
19 there has been a concession, as I understand it by  
20 the answer, that those responses were not correct at  
21 that time.

22 MR. EAB: Also, the portion which Mr. Knapp  
23 did not read when he picked out excerpts from this  
24 appears at page 25:

25 "Question: Do you happen to know what the total

PAUL FROMM, C.S.P. -- INTERVIEW REPORTER -- 24 July 7-6712

1  
2 amount of the indebtedness is?

3 "Answer: No, but I can check it for you."

4 Then they go on into further colloquy and the  
5 testimony he then read is given in this context.

6 THE WITNESS: And shortly thereafter, I supplied  
7 the Exchange, in a matter of days, with all the cor-  
8 respondence, the figures and everything. I went  
9 down there without any knowledge, just as this thing  
10 came up before, having no records at my disposal.  
11 I was asked to recall figures, trade dates. I gave  
12 them the figures and stated I would do so at that  
13 meeting, and within a matter of days they had every  
14 piece of correspondence I had, including amounts,  
15 dates, everything.

16 MR. EAB: That is Exhibit 10-B, which was sub-  
17 mitted by the Exchange, and the letter is dated  
18 December 2, 1969, six days after the deposition.

19 BY MR. KNAPP:

20 Q And in furnishing that information requested by  
21 the Exchange, weren't you doing no more or less than what  
22 you are required to do as an employee of a member firm,  
23 under your own agreement to abide by the rules of the  
24 Exchange?

25 MR. EAB: Objection, what rule are you speaking

PAUL FROMM, C.S.R. -- STENOGRAPHIC REPORTER -- EAB: 7-6532

1

2

of?

3

4

5

6

7

8

9

A That's correct.

10

11

12

13

14

MR. BAB: Objection. The question characterizes it. This is restricted stock. It is not worth the market value, which I assume Mr. Knapp is characterizing as the same value. It is an argumentative mischaracterization of the facts.

15

16

17

Q Is it not the fact that you did not want the American Stock Exchange to know, on November 25th, that you were indebted in the amount of \$420,000?

18

19

20

A Absolutely incorrect.

21

22

23

A I stated I would send them the exact papers. I sent them everything I had in my possession within a matter of days. They had everything in this building.

24

25

Q But a \$207,000 error in stating the amount of your indebtedness, wouldn't you agree, for a man of your

1  
2 particular circumstances, was quite a material dis-  
3 crepancy in a matter of debt owed to the officers of a  
4 public company?

5 MR. BAB: That is not the charge. The charge  
6 is that the information given was materially mis-  
7 stated.

8 THE CHAIRMAN: How do you explain that you could  
9 make such a substantial error in recalling to the  
10 staff member who was interrogating you about the  
11 amount?

12 THE WITNESS: During this period, as you will  
13 recall, everybody in our industry was kind of busy,  
14 to put it mildly. I honestly made the mistake. I  
15 thought I had paid the first commitment off. We  
16 were working, like yourself and everybody else on  
17 the panel, 12, 13, 14 hours a day. I was managing  
18 an office with roughly 16 or 17 brokers. It was a  
19 pretty hectic schedule.

20 Without reference to any notes, just coming in  
21 cold and sitting from 9:00 a.m. to 5:30 and being  
22 asked questions by four different people in rapid-  
23 fire succession, I had no way of checking. I said,  
24 "Let me check it and I will send you the papers."

25 THE CHAIRMAN: Were you asked to bring any

1  
2 documentation with you?

3 THE WITNESS: No, sir.

4 THE CHAIRMAN: Were you told as to what areas  
5 the inquiry would be developed of you?

6 THE WITNESS: No, sir.

7 THE CHAIRMAN: You know it was in connection  
8 with Four Seasons?

9 THE WITNESS: Yes, sir.

10 MR. KNAPP: May I resume, Mr. Chairman?

11 THE CHAIRMAN: Yes.

12 BY MR. KNAPP:

13 Q At page 18 of your November 25th hearing, dur-  
14 ing which I assume you had been interrogated for five or  
15 six minutes, you were asked the following questions and  
16 you gave the following answers:

17 "Question: Do you have a substantial portfolio  
18 of stocks of your own?

19 "Answer: I would say a fair portfolio, I guess.

20 "Question: Is Four Seasons among them?

21 "Answer: I own some Four Seasons, yes.

22 "Question: Can you tell me how many shares  
23 you own?

24 "Answer: Six hundred shares.

25 "Question: That is the total amount of stock

PAUL FROMM, C.S.R. -- SINGAPORE REPORTER -- Docket 7-6932

1  
2 you presently own?

3 "Answer: Yes. I am not talking about Mont-  
4 gomery Company.

5 "Question: I am talking about your own private  
6 ownership.

7 "Answer: That's right."

8 Now, if you go down to page 20, the Exchange had  
9 to obtain a list of shareholders for Four Seasons as of  
10 September 5, 1969, which indicated that you owned not  
11 600 shares of Four Seasons but 31,200.

12 In answer to the first question put to you,  
13 as to your ownership, did ownership of 30,000 shares  
14 merely slip your mind or escape your mind, or was it your  
15 intention to mislead the Exchange as to the true extent  
16 of your holdings and the source of those holdings?

17 A Basically, the question was asked, when I was  
18 called down, as I said before, without any prior notice  
19 of what the subject of discussion was going to be. I  
20 was focusing all my attention on the market price, on the  
21 listed marketable securities. This was in November of  
22 1969.

23 I had just purchased 600 shares of stock, at  
24 roughly around \$82.50 a share in my account at Walston,  
25 regular listed marketable securities. My whole focus

PAUL FROMM, C.S.R. -- STENOGRAPHIC RECAP -- Dated 7-6-93

1 of sitting there, not knowing what the subject of the  
2 conversation was going to be, was the marketplace and  
3 trading securities.  
4

5 I came back on page 21 and I said -- which Mr.  
6 Knapp hasn't commented on thus far -- and basically I  
7 talked about the listed marketable security. I will  
8 read it:

9 "That is letter stock. Your question was in  
10 my account, Walston & Company. That is marketable stock.  
11 This is letter stock you are talking of here.

12 "Question: Well, these 31,200 shares --

13 "Answer: Let me correct it. Two hundred shares  
14 of it was a stock dividend. I had given 200 shares to  
15 Fordham University as a gift at the end of last year.  
16 They didn't transfer it sufficiently out of my name in  
17 time to put it in the university's name. The two hundred  
18 shares I have subsequently received from the transfer  
19 agent and delivered to the Fordham account.

20 "Question: Then 31,000 shares of letter stock  
21 were owned by you on September 5th?

22 "Answer: That's correct.

23 "Question: And are still owned by you?

24 "Answer: Yes, sir.

25 "Q How and when was that stock acquired?

PAUL FROMM, CTR -- SENSITIVE REPORTER -- E-237 7-9712

1  
2 "Answer: I bought 10,000 shares of that stock  
3 back in the fall of 1968, I believe, and that split  
4 2-for-1, which makes 20,000 shares, and I bought  
5 10,000 shares in the spring of 1969.

6 "Question: The stock you purchased in the fall,  
7 the 10,000 pre-split shares, what did you pay for  
8 them?

9 "Answer: \$35 a share."

10 Then it goes on.

11 Q I refer you to page 171 of your interview of  
12 January 29, 1970, in which you were asked about your dis-  
13 closure to your firm of purchases of 30,000 shares from  
14 Messrs. Clark, Bouse & Gray.

15 "Question: Did you speak with anyone at Walston  
16 about this transaction at the time?

17 "Answer: No; I felt it was a personal trans-  
18 action by myself. I felt it had no bearing on our firm.  
19 Since it was a long-term commitment on my part, I felt it  
20 was my own private business."

21 Wasn't that your attitude when you were called  
22 down by the Exchange to explain your own dealings with  
23 the insiders of Four Seasons, that you felt it was your  
24 own private business and no affair of the Exchange?

25 MR. BAR: I have to correct this record. We

DALE THOMAS, CSR -- FIDELITY REPORTER -- BARRY 7-0912

1  
2 have to read the next paragraph.

3 THE CHAIRMAN: Let him answer this question.  
4 I will permit you to clarify it.

5 THE WITNESS: Just read the question back,  
6 please.

7 (Question repeated by reporter.)

8 A Yes, that's correct.

9 MR. RAB: What was left off there follows what  
10 Mr. Zucker of the Exchange asked of Mr. George  
11 Cabell, who was the vice president of Walston-legal.

12 "Zucker: Mr. Cabell, is this type of trans-  
13 action something which would normally receive clear-  
14 ance or you would want to clear it?

15 "Cabell: Not normally. This is a private  
16 matter between Mr. Crumrine and the parties he is  
17 dealing with.

18 "Zucker: So your attitude would be that he was  
19 perfectly correct in not bringing this to the atten-  
20 tion of Walston?

21 "Cabell: That's correct."

22 MR. KRALP: I will leave to the panel to decide  
23 whether Mr. Rauschman's version or Mr. Cabell's  
24 version is relevant to the circumstances of this  
25 case.

1  
2 MR. EAB: I submit there is no inconsistency  
3 in the testimony.

4 BY MR. KNAPP:

5 Q Mr. Crimmins, we have been through a lot here  
6 the last few hours and the other day. Would you give,  
7 maybe once more, an explanation to me and the panel and to  
8 the Exchange as to why, of all of the stockbrokers in  
9 the United States, you were singled out and selected by  
10 the management of Four Seasons to be not only a purchaser  
11 of a substantial block of their own personal holdings  
12 of Four Seasons shares, but also that you were permitted  
13 to purchase these shares on terms which, according to  
14 any fair-minded person, would regard as extremely  
15 generous and liberal? Would you care to explain to the  
16 panel any reason why you were selected as the beneficiary  
17 of this largesse by the management of Four Seasons,  
18 and specifically I will ask you, was this in consideration  
19 of services rendered and to be rendered to Four Seasons  
20 in promoting activity and interest in the stock --

21 MR. EAB: Is Mr. Knapp prepared to stipulate  
22 that no other registered representative on Wall  
23 Street --

24 THE CHAIRMAN: Would you break it down into  
25 separate questions: Let him answer, if he has an

PAUL FROMM, C.S.R. -- SHOOTING REVISION -- PAGE 7-5912

1  
2 opinion, why he was selected.

3 MR. KNAPP: I wanted him in his own way to  
4 explain, under all of the circumstances, to the  
5 panel why he was selected by the management of Four  
6 Seasons for these particular transactions under the  
7 liberal credit terms involved. I think the question  
8 here has been raised and I think it is a legitimate  
9 question. I think he should be given every oppor-  
10 tunity to give his own explanation.

11 MR. DAB: What question is now pending?

12 THE CHAIRMAN: Without having it read again,  
13 as I understand it, does Mr. Grinnins have an opinion  
14 as to why he was selected by these three insiders  
15 of Four Seasons to receive this stock at rather  
16 favorable terms, or at a price less than the current  
17 market, and it was at a substantial discount off  
18 the current market.

19 MR. DAB: I don't think there is any testimony  
20 he was selected. It was his testimony that he asked  
21 to buy some.

22 THE CHAIRMAN: If he has no opinion, he has no  
23 opinion.

24 THE WITNESS: I requested to buy it. They turned  
25 over their certificates to me for my \$405,000, which

1 is worthless today.

2  
3 BY MR. KNAPP:

4 Q On that point, Mr. Crimmins, it is a fact that  
5 you paid the second 50 percent installment on the first  
6 purchase in January 1970, is that correct?

7 A I believe that's correct, yes.

8 Q And that was after the matter had been called  
9 to the attention of the Exchange in your interview on  
10 November 25, 1969? Is that also correct?

11 A The payment had no bearing whatsoever on the  
12 fact that I had a meeting with the American Stock  
13 Exchange, none whatsoever.

14 Q But the payment was made subsequently?

15 A That's correct.

16 Q But that payment should have been made in  
17 July, according to your original arrangements with Mr.  
18 Clark, is that right?

19 MR. BAB: You mean according to the note. What-  
20 ever the note is, you have it in evidence. It is  
21 your exhibit. What does it say?

22 MR. KNAPP: I think the agreement speaks for  
23 itself.

24 MR. BAB: I agree.

25 Q Would you care to tell the panel why Mr. Clark,

PAUL FROMMA, C.S.R. — STREETWISE REPORTER — BANCROY 7-6912

1  
2 Mr. House and Mr. Gray would sell you 30,000 shares of  
3 stock for an initial payment of \$7.66 in cash?

4 MR. EAB: It has been testified to twice, as  
5 far as I recall.

6 Q Or would you prefer not to make any further  
7 explanation?

8 A I would prefer to answer any question of any  
9 member of the panel regarding the purchase.

10 Q Well, that is my question. Would you care to  
11 explain why you were given the terms of purchase?

12 MR. EAB: It has been asked and answered  
13 twice. It is not a direct question. It is an argu-  
14 ment. It is a peroration by counsel. I object to  
15 it as being an improper question.

16 THE CHAIRMAN: If he has no opinion or thoughts,  
17 he can so state it for the record. I have some  
18 later questions in this regard.

19 MR. KNAPP: In that case, I have no further ques-  
20 tions of the witness.

21 THE CHAIRMAN: You will have to refresh my  
22 recollection, Mr. Crimmins. The first public offer-  
23 ing of Four Seasons, I believe, was in 1968.

24 THE WITNESS: May of 1968.

25 THE CHAIRMAN: Was there a subsequent public

## AFTERNOON SESSION

2:00 P. M.

THE CHAIRMAN: We will resume the hearing.

F R A N K J. C R I M M I N S resumed the stand and testified further as follows:

THE CHAIRMAN: Mr. Crimmins, I want to go back again with respect to this June 1968 visitation to Four Seasons. I think you testified that Mr. McCollum requested you to make that visitation.

THE WITNESS: Correct.

THE CHAIRMAN: I am trying to get a little more of the purpose of your visit. It is my understanding that Mr. McCollum was at that time on the board of directors of Four Seasons. I make that statement because I find him reflected in the May prospectus as a director, in the Four Seasons prospectus of May 1968.

Obviously, Halston & Company no doubt had access to financial information and what the company was doing by virtue of the directorship. You were already their investment banker. You had underwritten their stock, so you had assumed that relationship.

I am trying to get clear in my mind exactly why

PAUL FREEMAN, C.S.P. -- STENOGRAPHIC REPORTER -- Eviday 7-5512

1 they would send you down. Did they contemplate  
2 you writing a research report, or did they want  
3 your individual views on a new nursing home  
4 approach or technique? Why were you selected  
5 to go down?  
6

7 THE WITNESS: Let me stop and think. I  
8 honestly don't know why Mr. McCollum called me. I  
9 know the company -- and I want to be responsive  
10 to your question -- I know the company visited  
11 our Chicago office right after I went out there  
12 with Paul Elliott. I was leaning pretty heavily  
13 on Paul because he was our special situations  
14 analyst. He had not been in New York and I guess  
15 Gordon wanted me to look at the facilities for  
16 my own edification. I don't know why he called  
17 me.

18 THE CHAIRMAN: Had you made it known to  
19 anyone that you would like to visit Four Seasons?

20 THE WITNESS: No, sir.

21 THE CHAIRMAN: During your visitation to  
22 Four Seasons, did you have any discussion with any  
23 officer or director of Four Seasons about the  
24 possibility of an additional public offering, a  
25 secondary?

1  
2 THE WITNESS: No, sir.

3 THE CHAIRMAN: Did your visitation result in  
4 Walston's preparation of any special research  
5 report on the company?

6 THE WITNESS: No, sir.

7 THE CHAIRMAN: I think you testified that in  
8 about November of 1968, you made your first  
9 purchase of the restricted stock?

10 THE WITNESS: Right.

11 MR. BAE: The arrangements were made?

12 THE CHAIRMAN: Yes, the arrangements. I was  
13 curious because I noticed the gentlemen you pur-  
14 chased the stock from were also sellers in the  
15 December secondary by Four Seasons.

16 THE WITNESS: Correct.

17 THE CHAIRMAN: They sold a considerable  
18 amount of stock. Accordingly, why were they will-  
19 ing to sell to you at that time because obviously  
20 it doesn't appear that they would have a need for  
21 money because they were about to sell a substantial  
22 block in a public offering on or about the current  
23 market value of the stock.

24 THE WITNESS: Again, I had asked to make the  
25 purchase. They could have said no and that would

PAUL FROMMA, C.S.R. -- STRUCTURE REPORTER -- U/Esley 7-0932

1  
2 have been the end of it.

3 THE CHAIRMAN: Why did you think they were  
4 interested in selling the stock? You must have  
5 felt free to approach them about it.

6 THE WITNESS: I didn't know that they would  
7 sell the stock. I knew I would lose half of my  
8 position with the Montgomery Company. I stated  
9 emphatically that I evidenced my displeasure at  
10 it to senior people at Walston.

11 I was not interested in seeing half of my  
12 position cut back. I wanted to basically in-  
13 crease it. That is when I asked if I could pur-  
14 chase long-term unregistered securities. The  
15 total decision as to whether or not they would  
16 sell them was up to those three gentlemen.

17 THE CHAIRMAN: Had you expressed to those  
18 gentlemen your disappointment in Montgomery's  
19 decision to sell the stock?

20 THE WITNESS: I thought it was particularly  
21 my own concern. It had nothing to do with them  
22 at all.

23 THE CHAIRMAN: Did Walston & Company, during  
24 the years 1968, 1969 or, indeed, 1970 issue any  
25 research reports or recommendations as to Four

PAUL FROMAM, C.S.R. -- STRUCTURAL REPORTER -- Docket 7-6932

Seasons?

THE WITNESS: What period of time?

THE CHAIRMAN: Well, take the years 1968, 1969 or 1970.

THE WITNESS: I am trying to recall. I know Walston was very, very sensitive about issuing research reports on the company because it was such an actively traded issue. I would say they did do a report which I believe was some time in 1969. Sort of a corporate finance emanated from Chicago, from the corporate finance department. It was after a great many other firms in the Street had written up and recommended it.

THE CHAIRMAN: Did you have occasion yourself to recommend Walston writing a research report on Four Seasons?

THE WITNESS: No, sir; I had nothing to do with it.

THE CHAIRMAN: Obviously, there has been a suggestion throughout the entire presentation of the American Stock Exchange case -- they suggest that in return for the stock you were able to purchase from these insiders at a discount from the current market value, perhaps they wanted something

1  
2 in return from you.

3 THE WITNESS: That is not the case at all.

4 THE CHAIRMAN: Were you ever asked to per-  
5 form any services by these individuals in con-  
6 nection with Four Seasons?

7 THE WITNESS: No, sir.

8 THE CHAIRMAN: Did you ever have any discus-  
9 sions with them with respect to the allocation  
10 of Four Seasons securities to a relative of the  
11 specialist?

12 THE WITNESS: No, sir.

13 THE CHAIRMAN: Did they ever suggest to you  
14 or recommend to you that you use your influence  
15 to have a research report written by Walston about  
16 Four Seasons?

17 THE WITNESS: No, sir.

18 THE CHAIRMAN: Did they ever ask you to use  
19 your efforts in interesting institutional accounts  
20 in the securities of Four Seasons?

21 THE WITNESS: No, sir.

22 THE CHAIRMAN: Let's go on to another area.  
23 I think there has been certain testimony that you  
24 did have occasion frequently, perhaps, to talk  
25 to Mr. Clark, and many of those conversations,

PAUL PROCTOR, C.S.R. -- SIMONITE REPORTER -- CArclay 7-5932

1  
2 and asking him anything about any of the affairs of  
3 Four Seasons or what his views were with respect to  
4 any matters concerning Four Seasons?

5 THE WITNESS: A specific phone call for that  
6 purpose?

7 THE CHAIRMAN: Yes, just for that purpose.

8 THE WITNESS: No, sir.

9 THE CHAIRMAN: There has been reference in the  
10 testimony to an announcement by Four Seasons to  
11 engage in a franchise type of operation. I think  
12 there is a reference that that announcement was made  
13 on or about April 7, 1969. Did you have advance  
14 knowledge that that announcement would be made?

15 THE WITNESS: No, sir.

16 THE CHAIRMAN: Had you ever discussed a fran-  
17 chise concept with Mr. Clark or anyone else of  
18 Four Seasons prior to that announcement?

19 THE WITNESS: The financing deal was done away  
20 from Walston & Company. We had no knowledge if it  
21 was ever going to be a consummated piece of financing  
22 because it wasn't done through the auspices of  
23 Walston.

24 THE CHAIRMAN: Assuming that Mr. Linn and Mr.  
25 Helms purchased their Four Seasons stocks prior to

PAUL FROMAN, C.S.R. — STENOGRAPHIC REPORTER — BANCORP 7-0232

1  
2 the announcement of April 7th, are you stating that  
3 at the time of the purchases you had no advance  
4 knowledge that an announcement was about to be made  
5 as to the franchising operation?

6 THE WITNESS: That's correct.

7 THE CHAIRMAN: What did you say Mr. Linn's  
8 occupation was?

9 THE WITNESS: Well, he and his partner, Mr.  
10 Helms, had a law firm. I think Mr. Linn was dis-  
11 trict attorney of Hansford County, Texas.

12 THE CHAIRMAN: And Mr. Helms bought two thousand  
13 shares of stock, with the settlement date of April  
14 11th?

15 MR. KNAPP: Settlement April 11th; trade date,  
16 April 3rd.

17 THE CHAIRMAN: Was this the first time Mr.  
18 Helms had purchased securities through you?

19 THE WITNESS: I am not quite sure. I would have  
20 to look at his account page.

21 THE CHAIRMAN: Is it your testimony you did  
22 recommend this purchase to Mr. Helms of the two  
23 thousand shares of Four Seasons?

24 THE WITNESS: I was bullish on the stock and  
25 the future of the company. He had asked me what I

1  
2 thought of the commitment. I said I thought the  
3 stock looked like it had good potential and he  
4 bought the stock.

5 THE CHAIRMAN: At that time, had he had a  
6 securities account, at an earlier time, with Wal-  
7 ston or any other broker?

8 THE WITNESS: I don't believe he had another  
9 account with Walston. I can't testify as to another  
10 account with another broker. I wouldn't know it.

11 THE CHAIRMAN: Who made the decision to make a  
12 one hundred thousand dollar investment? Was it your  
13 recommendation, or did he make a determination as  
14 to the amount he would invest?

15 THE WITNESS: It was up to him.

16 THE CHAIRMAN: Because as a first-time invest-  
17 ment -- and I don't know this man's worth -- it was  
18 a sizable investment.

19 THE WITNESS: I believe these fellows were -- and  
20 I don't want to get into supposition, but I believe  
21 they had a fair amount --

22 THE CHAIRMAN: You had a duty to know something  
23 about their financial circumstances.

24 THE WITNESS: I had every reason to believe a  
25 commitment of that size would be satisfied.

PAUL FROMM, C.S.R. -- STENOGRAPHIC REPORTER -- E-252 7-6932

1  
2 THE CHAIRMAN: Was it a margin purchase?.

3 THE WITNESS: No, I don't believe so.

4 THE CHAIRMAN: In other words, it was a cash  
5 transaction?

6 THE WITNESS: Yes, a cash transaction.

7 THE CHAIRMAN: I have one other area I would  
8 like to go over with you, and some of the members  
9 of the panel will have some questions, too.

10 I think there was some testimony that in about  
11 January of 1969 -- and you, yourself, didn't have  
12 a clear recollection as to precisely what date --  
13 there was a directive within Walston & Company to  
14 terminate any further solicitations in the stock  
15 of Four Seasons, at least for that time. Was that  
16 directed, to your best recollection, only to your-  
17 self and the one other gentleman, Mr. Nissan,  
18 or was it a directive to all account executives or  
19 salesmen of Walston & Company?

20 THE WITNESS: I am not quite sure if it was  
21 all-encompassing. I just do not remember. May I  
22 refer to it?

23 THE CHAIRMAN: Yes, of course.

24 (Witness refers to document.)

25 THE CHAIRMAN: This is a January 16, 1969 file

PAUL FROMM, C.S.R. -- EXHIBIT 100 -- BANCORP 7-5132

1  
2 memorandum of Four Seasons Nursing Centers.

3 MR. SOUR: I believe it is 16-B.

4 MR. KNAPP: 16-B is an earlier memo dated July  
5 2, 1968.

6 THE CHAIRMAN: This is January 16, 1969.

7 MR. KNAPP: I believe it is Exchange Exhibit  
8 16-0.

9 THE CHAIRMAN: Mr. Crimmins, you and I have  
10 been examining Exchange Exhibit 16-0, which is an  
11 internal Walston memorandum dated January 16, 1969.  
12 Would you not agree that in reading the memorandum,  
13 it indicates that the direction to terminate  
14 solicitation was obligated at Mr. Nissan and your-  
15 self?

16 MR. EAB: The direction from whom?

17 THE CHAIRMAN: I assume from Mr. A. J. Rauschman  
18 of the legal department.

19 MR. EAB: But not from the Amex?

20 THE CHAIRMAN: No. It is a direction from Mr.  
21 Rauschman, if I read his memorandum correctly,  
22 directed towards yourself and Mr. Nissan.

23 THE WITNESS: By the Walston people.

24 THE CHAIRMAN: Yes, and it further indicates  
25 you had agreed to cooperative with the directive.

PAUL FREEMAN, C.S.2 . . . MEMORANDUM REPORTER -- Satch 7-0522

1  
2 THE WITNESS: Correct.

3 THE CHAIRMAN: How long was this directive in  
4 effect, Mr. Crimmins?

5 THE WITNESS: I don't believe it was in effect  
6 for a very long period of time. I think some cor-  
7 respondence started to ensue. This is only my best  
8 recollection. I believe some correspondence began  
9 between the president of our firm and the American  
10 Stock Exchange, and we were guided by Walston &  
11 Company in this matter.

12 THE CHAIRMAN: Notwithstanding this memorandum  
13 indicates you agreed to cooperate, did you take  
14 objection to this directive?

15 THE WITNESS: No, sir.

16 THE CHAIRMAN: Did you feel it wasn't appropri-  
17 ate?

18 THE WITNESS: No, sir.

19 THE CHAIRMAN: Well, to your knowledge, did  
20 anyone else at Walston take exception to this direc-  
21 tion, because you have indicated that further  
22 discussions were initiated with the American Exchange  
23 about this matter?

24 THE WITNESS: I wish I could refer -- I believe  
25 that the senior management of the firm took exception

PAUL FROMM, C.S.R. -- INTERVIEW REPORTER -- P.A. 7-5932

1  
2 to the fact, and again without having the actual  
3 letter before me -- I believe Mr. Fleming addressed  
4 a letter and stated the firm stood proud in its  
5 knowledge of its relationship with the company and  
6 saw no reason to put this imposition on the Walston  
7 & Company brokers.

8 MR. EAB: I don't want to interrupt your  
9 examination, but if it is a point of information,  
10 it is contained in the report at page 44:

11 "However, in the latter part of February 1969,  
12 Walston indicated to the Exchange that it was  
13 rescinding these restrictions on solicitation."

14 THE CHAIRMAN: What are you reading from?

15 MR. EAB: The Report of Investigation which  
16 is marked for identification.

17 THE CHAIRMAN: Read it again.

18 MR. EAB: Page 44, the last full paragraph on  
19 the page:

20 "As noted in section 6(b) above, on January 8,  
21 1969, Walston's compliance department, following  
22 informal discussions at the time with the Exchange  
23 staff, instructed Mr. Crimmins to cease the solici-  
24 tation of customer purchase orders for FSN stock.  
25 Instructions of similar purport were given by the

PAUL FROMAN, C.S.R. -- SEYMOUR REPORTER -- Docket 7-002

1  
2 firm to Mr. Nissan on January 16, 1969. However, in  
3 the latter part of February 1969, Walston indicated  
4 to the Exchange that it was rescinding these re-  
5 strictions on solicitation."

6 THE CHAIRMAN: Mr. Crimmins, do you recall  
7 having a discussion with Mr. Rauschman with respect  
8 to this directive?

9 THE WITNESS: Yes, I remember speaking to him.

10 THE CHAIRMAN: Do you recall as to what reasons  
11 were advanced to you by Mr. Rauschman for this  
12 directive?

13 THE WITNESS: I don't recall them right now,  
14 but I certainly adhered to his recommendation.

15 THE CHAIRMAN: Well, do you remember any of  
16 the considerations, because I would think this would  
17 have been of some significance to you? You were  
18 very high on Four Seasons. You had an investment  
19 in it. You had recommended it to your customers,  
20 and all of a sudden you were being told you could  
21 not recommend the purchase of a stock which you  
22 felt very highly about.

23 THE WITNESS: Also, as an officer of Walston  
24 & Company, I wasn't going to go contrary to the  
25 wishes of senior management.

PAUL FROMM, C.S.R. -- SHREVEPORT REPORTER -- 2/10/69 7-5032

1  
2 THE CHAIRMAN: But didn't you demand an  
3 explanation of why you were being asked to do this?

4 THE WITNESS: Naturally, we spoke of it.  
5 That is why Mr. Fleming, in his subsequent corres-  
6 pondence with the Amex, stated the firm's position;  
7 that they felt they were adhering to all the rules  
8 and regulations.

9 THE CHAIRMAN: As you understood it, did this  
10 directive have any relationship whatsoever as to  
11 your association or affiliation with the Four  
12 Seasons management or the company?

13 THE WITNESS: Not to my knowledge, no.

14 THE CHAIRMAN: Wouldn't it seem somewhat strange  
15 that while all other account executives in the Wal-  
16 ston Company could apparently continue to solicit  
17 the purchase of the stock, this directive was  
18 directed to only two account executives or managers  
19 in the entire firm: yourself and Mr. Nissen?

20 THE WITNESS: Well, we were among the larger  
21 of the retail brokers in the firm. Maybe that is  
22 why it came in that way.

23 THE CHAIRMAN: How many account executives, do  
24 you know or do you have any idea, did Walston have  
25 at that time?

PAUL FROMAN, C.S.R. -- SIMONITE REPORTER -- Gaddy 7-6923

1  
2 THE WITNESS: I would have to say in excess of  
3 1400.

4 THE CHAIRMAN: So, hypothetically, 1398 account  
5 executives could continue to recommend the stock  
6 but Mr. Nissan and yourself could not? That must  
7 have struck you as being somewhat strange, didn't  
8 it?

9 THE WITNESS: Yes.

10 THE CHAIRMAN: But you have no recollection  
11 of the reasons advanced why two of you had been  
12 singled out, and apparently at the indirect sugges-  
13 tion of the American Exchange, to terminate the  
14 solicitation of Four Seasons stock?

15 THE WITNESS: I think that memo says that the  
16 American is asking that Mr. Nissan's solicitations  
17 be held up, and at the suggestion of that, Mr.  
18 Kauffman, in discussing that situation, that  
19 request on the part of the Amex went to the senior  
20 management of the firm and they just wanted to  
21 conform in every way they could with the Amex  
22 request. That is the way my name comes into the  
23 memo.

24 THE CHAIRMAN: Is your only explanation that  
25 Mr. Nissan and yourself were probably the largest

PAUL BREMAN, C.I.F. -- MEMORANDUM -- Excerpt 7-6222

1  
2 producers in this particular stock or had the  
3 longest customer interest?

4 THE WITNESS: I would say among the top four  
5 or five in the name, yes.

6 THE CHAIRMAN: At the time Rauckman wrote  
7 the memorandum on January 18th -- and this may be  
8 in the record -- was he aware of your ownership of  
9 restricted stock in Four Seasons?

10 THE WITNESS: Only the Montgomery purchase.

11 THE CHAIRMAN: Mr. Grubbs, I think it is  
12 certainly conceded throughout the pleadings and the  
13 testimony that you obviously had occasions to accept  
14 unsolicited orders in Four Seasons from your cus-  
15 tomers and on occasion to recommend the purchase of  
16 Four Seasons stock to your customers.

17 During any of those conversations relating to  
18 those purchases or their sales, for that matter, of  
19 Four Seasons, did you disclose to any customer your  
20 ownership of the restricted stock of Four Seasons?

21 THE WITNESS: I can't recall now. I may have  
22 told some people who were close friends, clients  
23 of mine, that I owned the stock, but I can't recall  
24 in general if every customer was told it.

25 THE CHAIRMAN: You may have mentioned it to some?

EE-260

PAUL FROENY, Clerk -- DEPOSED AT NEW YORK, N.Y. -- January 7-1952

1 THE WITNESS: Right.

2 THE CHAIRMAN: But you didn't make it a prac-  
3 tice to disclose it?  
4

5 THE WITNESS: That's correct.

6 THE CHAIRMAN: I don't think I have any further  
7 questions. I think other members of the panel may  
8 have some additional questions of you.

9 MR. SCURT: I have a couple of questions. I  
10 would like to get back to the purchases of the  
11 letter stock. Based on the market value at the time  
12 you entered into the two agreements for the two  
13 purchases of 10,000 shares, the differential in  
14 value between the price you agreed to pay and the  
15 then prevailing market prices, in the aggregate,  
16 amounted to a couple of hundred thousand dollars,  
17 am I correct?

18 THE WITNESS: I would say yes.

19 MR. SCURT: I think it is pretty clear and I  
20 think you have agreed that management didn't need  
21 to sell stock, or didn't need the money from the  
22 sale of stock for themselves. Am I correct in that  
23 assumption? They just had a big secondary them-  
24 selves and sold millions of dollars worth of stock  
25 for their own accounts, so I am prepared to assume,

26

1  
2 and maybe you will agree or disagree, that they  
3 didn't need the proceeds from these sales to you  
4 for themselves?

5 MR. BAB: I don't mean to interrupt, but that  
6 is an assumption. There can be a lot of other  
7 considerations.

8 MR. SOUR: As a businessman --

9 MR. BAB: You are making an assumption about  
10 the financial and other situations about third  
11 parties. We are just speculating as to what the  
12 motives may or may not have been. They might  
13 have had \$21 million of liabilities.

14 MR. SOUR: Do you know that they needed the  
15 proceeds from these sales to you for themselves?  
16 Or you happen to know it? Did they ever mention  
17 they used \$15,000 to go out and buy a boat?

18 THE WITNESS: No, sir.

19 MR. SOUR: I think you also told us that they  
20 never asked, nor did they receive, any specific  
21 services from you.

22 THE WITNESS: That's correct.

23 MR. SOUR: You are asking us to believe that  
24 for a consideration, in effect, of a discount amount-  
25 ing to a couple of hundred thousand dollars, you

THE WITNESS: YES -- THAT'S ALL -- THAT'S ALL

1 have done nothing and they needed nothing?

2 MR. EAB: May I just say this: I think you  
3 are placing Mr. Crimmins in a very unfair position.  
4 I can give you a couple of reasons why.  
5

6 We know, for example, now that Mr. Clark has  
7 been indicted and convicted. He pled guilty. We  
8 know also that in that matter one of the considera-  
9 tions is that the insiders were trying to get out  
10 of Four Seasons stock.

11 We know, further, that subsequently, in 1969,  
12 through these numbered accounts in Walston of which  
13 Mr. Crimmins had no knowledge, which has been so  
14 canceled, these insiders were also pumping stock  
15 out.

16 When you say they didn't need the proceeds, it  
17 may well be so, but there are also some facts in-  
18 dicating they wanted to get out of the stock. They  
19 had a lot of stock.

20 I would advise the panel that we had a claim  
21 against the insiders on 10-8-15, we being Mr.  
22 Crimmins, as a result of which that is why he didn't  
23 pay the note. It was cancelled. There was kind of  
24 a settlement at this point.

25 THE CHAIRMAN: I was going to ask that because  
26 THE CHAIRMAN, ASK: ...

outside aspects of the case.

THE CHAIRMAN: I think we can take initial notice that obviously one individual was indicted and pled guilty: Mr. Clark.

MR. DAB: And so did McCollum and Miller, as well as Mr. Clark. That is why I think it is inappropriate to ask him about third persons' motives.

MR. KNAPP: Let the record show that Mr. Grimmings was named as a co-conspirator in the Clark matter.

THE CHAIRMAN: But not a defendant.

MR. DAB: Further in this area -- and I don't know if this is appropriate for you -- but in preparation for this, we contacted both Gray and Clark, their lawyers, to see if we could get them either by deposition or live testimony. Mr. Rouse is dead now.

I have a letter from Mr. Robert Patterson, who is counsel for Tom Gray, which has a bearing on this and tells us why Mr. Gray won't appear. Also, he gives his version of the relationship with Mr. Grimmings.

We were unable to procure a similar letter from Paul Gould, the lawyer for Mr. Clark in New York.

PAUL GOULD, CLERK, NEW YORK, NEW YORK

1  
2 I would hand this letter up to the panel because it  
3 relates to your inquiry, Mr. Court.

4 MR. COURT: May I see a copy of it?

5 THE CHAIRMAN: Let's mark it for identifica-  
6 tion, at least, as Respondent's Exhibit 9.

7 MR. COURT: It is dated June 3, 1973.

8 MR. COURT: Respondent's 9 for identification  
9 in a letter dated June 3, 1973, to Thomas W.  
10 Hill, from Robert E. Pedersen, Jr.

11 (The letter referred to was marked Respondent's  
12 Exhibit 9 for identification.)

13 MR. COURT: Then there were obviously things  
14 going on within the company about which you had no  
15 knowledge?

16 THE WITNESS: Yes, sir.

17 MR. COURT: Which have since come to light?

18 THE WITNESS: That's correct.

19 MR. COURT: At the time, however, you felt you  
20 were getting a very substantial discount in exchange  
21 for what?

22 THE WITNESS: Money, cash, my checks.

23 MR. COURT: You were getting a discount. Why  
24 were you getting the discount? I am not talking  
25 about the part you were obligated for, the 30 percent

1  
2 or 38 percent.

3 THE WITNESS: During this period in question,  
4 regarding letter stock, there were funds started  
5 just for letter stock commitments. Letter stock  
6 discounts were ranging up to 50 percent in the  
7 marketplace. I don't think I got anything but an  
8 ordinary discount with relation to the market  
9 price of the listed marketable securities, with  
10 relation to any unregistered, restricted, long-  
11 term securities that I was purchasing.

12 THE CHAIRMAN: Was there a prescribed holding  
13 period, any kind of contractual agreement you had?  
14 You know, there is a rule of thumb that you have  
15 to hold letter investment stock two or three years.

16 On the other hand, in some cases there is an  
17 actual contractual agreement that you will hold it  
18 for a certain number of years. Have you committed  
19 to any definite holding period when you bought the  
20 stock?

21 THE WITNESS: No, sir, but in my own mind I  
22 was thinking of a minimum of two years.

23 THE CHAIRMAN: But it was legended as such  
24 by the company or its transfer agent?

25 THE WITNESS: Yes, sir.

26 PAUL CRIMMINS, JR. - DIRECTOR - 1967-1968

1  
2 MR. WHIPP: If I may address myself to Mr. Sour  
3 briefly, the Exchange's position is that the dis-  
4 count from market of 30 percent per se does not  
5 appear to be unreasonable for unregistered stock.

6 The point that I think is of particular  
7 importance are the unusual credit terms. One  
8 half of the purchase price of the first block of  
9 stock was not paid until four months after the  
10 arrangements were made, and then by a sort of  
11 bookkeeping procedure from the proceeds of 4200  
12 shares of free stock which had risen quite con-  
13 siderably in price from the time the original sale  
14 was made.

15 The second block, which required a \$300,000  
16 payment, only \$55,000, approximately 20 percent,  
17 was paid, and the rest never was paid.

18 MR. SOUR: We have it quite well spelled out.

19 MR. WHIPP: The balance on the first purchase  
20 was paid in 1970, some two months after the Exchange  
21 called Mr. Crimmins in and got a complete version  
22 of what the transaction was.

23 MR. SOUR: We understand that before you be-  
24 came interested in Four Seasons Nursing stock,  
25 Four Seasons Nursing was itself a corporate client

E-267

1  
2 of Walston & Company?

3 THE WITNESS: That's correct.

4 MR. SCUR: And there obviously had been a num-  
5 ber of close connections made and that there had  
6 been an underwriting and perhaps people within  
7 Walston and Four Seasons were thinking about the  
8 secondary offering of November. I am not talking  
9 about yourself at this point, but a large develop-  
10 ment of interest between the two companies, Walston  
11 and Four Seasons, had been developed.

12 THE WITNESS: Correct.

13 MR. SCUR: Speaking from my own knowledge  
14 as a registered representative in the business, if  
15 I walked in to my firm and bought better stock in  
16 a company client of my firm without revealing  
17 this information, I could imagine doing it without  
18 allowing it with my firm.

19 I just wondered if you can explain to me how  
20 you felt that your new involvement in Four Seasons  
21 Funding entitled you to this private feeling you  
22 stated, that it was not the business of your firm,  
23 whose client it was originally.

24 THE WITNESS: Well, I think I answered the  
25 other day that I had originally owned better stock,

26 SAN. FILM, 1961. -- SOURCE: 1961. -- SAN. FILM

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[illegible]

relationship, or a spokesman for the people developing the relationship and spokesman for many of the smaller people in Walston itself, as opposed to yourself, as individual, by your own definition a private person making his own negotiations with the Mine's major corporate client of your brokerage firm.

MR. WED: May I just say that we have testimony from both Mr. Schell and Mr. Pauschman, the compliance people.

MR. SOUR: It is the most extraordinary testimony I have seen in my own experience.

MR. WED: That may be, but we are going back to 1968 and 1969, and things have changed a bit.

THE CHAIRMAN: In that same connection, Mr. Crimmins, did it ever occur to you, when you did determine that there was a possibility or in fact that these 10,000 shares of stock could be purchased at a discount as investment letter stock, that you owed an obligation, as a partner and employee, to make available that information to Walston and your fellow partners, or indeed make it available to one of your public customers, because you, as a professional, deemed it to be an advantageous pur-

chase? You may have felt it was quite a normal  
disposal for investment letter stock, but you had  
found the availability of stock at a 30-percent dis-  
count.

Did it ever occur to you, as a partner of  
Walston, that you owed an obligation to make that  
fund available to the partnership's own account,  
rather than using it as an individual and not  
discussing to any of your fellow partners that  
this opportunity had come along and could be taken  
advantage of?

THE WITNESS: Well, just to paraphrase briefly  
Mr. Houschman and Mr. Cabell's comments, I believe  
it was several years after the period in question  
that the firm chose to put in memo form a new set of  
guidelines for account executives, branch managers  
and voting stockholders, if you will, to adhere to.  
Had there been something in effect, I would have  
adhered to it. There is no question of it in my  
mind.

THE CHAIRMAN: Are you really testifying  
that at that time in Walston, you didn't feel there  
was any obligation or directive that partners or  
account executives had to make known the available

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PAUL HENRI, Q. -- RECALL NAME -- JULY 1961

1 included in a company registration statement?

2 A No, sir.

3 Q In November, 1969, before the Exchange, and on  
4 December 2nd you furnished the underlying documentation  
5 with respect to the restricted stock purchase. In  
6 November or December, or indeed in January of 1970, did  
7 anyone at the Exchange, on the staff, advise you that  
8 there was something improper in the purchase?  
9

10 A No, sir.

11 MR. KNAPP: I object to that. I think it is  
12 totally irrelevant to the issues.

13 THE CHAIRMAN: I will allow him to answer it.

14 Q At any time from the time of your examination  
15 by the Exchange in November of 1969 until April 1970, when  
16 trading was stopped in Four Seasons stock, did anyone on  
17 behalf of the American Stock Exchange advise you that  
18 the transaction was improper and ask you to rescind the  
19 transaction?

20 A No, sir.

21 Q Mr. Cabell was the vice president/legal  
22 at Walston, and he accompanied you to the deposition,  
23 is that correct?

24 A Yes, sir.

25 Q Did Mr. Cabell or anyone else at Walston ever

WASH. PROGRAM, C.S.R. - SIMONSON RECORDS - JUNE 7, 1972

1  
2 MR. BAB: I don't know what this is material  
3 to. Is it a claim of improper use of inside infor-  
4 mation? I object unless I know its materiality.

5 Q Did Mr. Helms make a profit on the transaction?

6 A Yes, he made a profit.

7 THE CHAIRMAN: This has arisen once again.  
8 Did Mr. Helms call you from Texas to order you to  
9 purchase the stock? I think you recommended it  
10 to him, but did you initiate a phone call to Texas,  
11 to interest him in Four Seasons on that day?

12 THE WITNESS: I am not quite sure. I don't  
13 know if I did or not. I wish there was some way  
14 to check it. I don't believe I did call him. I  
15 would like the record to be absolutely certain  
16 before I make the statement.

17 THE CHAIRMAN: Is it a fact that he later  
18 became connected with the Four Seasons organization?

19 THE WITNESS: Later in the year, yes. I know  
20 he and Mr. Linn were law partners together.

21 THE CHAIRMAN: In what capacity did they join  
22 the Four Seasons organization?

23 THE WITNESS: I would say approximately in the  
24 late summer, Mr. Linn became president of Four  
25 Seasons Franchise Centers and Mr. Helms was the vice

DAVID HANMAN, C.S.R. -- SUBJECT IN CASE -- CASE NO. 10-112

1  
2 president.

3 THE CHAIRMAN: Did they discuss with you, at  
4 about the time of this April trade, that they  
5 contemplated joining Four Seasons? Did you have  
6 any knowledge that they were having discussions  
7 with Four Seasons at the time?

8 THE WITNESS: No, sir.

9 THE CHAIRMAN: How did they first become  
10 acquainted with Four Seasons?

11 THE WITNESS: I believe Mr. Linn and Mr. Clark  
12 had known each other for many, many years. They had  
13 a longstanding relationship.

14 THE CHAIRMAN: To your knowledge, did Mr.  
15 Clark recommend to Mr. Linn that he open an account  
16 with you?

17 THE WITNESS: No, sir.

18 THE CHAIRMAN: Did you solicit the opening of  
19 an account?

20 THE WITNESS: I know he told me he was active  
21 in securities transactions. That was one of my  
22 functions, so I believe I may have called him for  
23 the purpose of opening an account.

24 THE CHAIRMAN: When did you first meet him?

25 THE WITNESS: In November of -- I believe in

WILLIAMSON, U.S.R. -- SECURITY MATTER -- 100-74032

1  
2 in effect? Therefore, your statement at page 149 of  
3 the transcript, relating to your conversation with  
4 Mr. Linn before he bought his own five thousand shares --  
5 "I thought the stock was going to enjoy a pretty sub-  
6 stantial appreciation in price and I said he ought to  
7 buy some stock" -- it is quite apparent, is it not,  
8 that Mr. Linn conveyed this information to his partner,  
9 Mr. Helms, and even put up the money for his partner,  
10 Mr. Helms, also to take a position in Four Seasons  
11 stock?

12 A I know they were very close friends and  
13 business partners. How they worked their arrangements  
14 out is something I wouldn't know about.

15 MR. KIRKP: I have no further questions.

16 THE CHAIRMAN: Who placed the order for Mr.  
17 Helms? Did he place it personally or did Mr. Linn  
18 place it for him?

19 THE WITNESS: I can't remember.

20 THE CHAIRMAN: Well, would you have accepted an  
21 order from Mr. Linn for the account of Mr. Helms?

22 THE WITNESS: I don't believe so. It is kind  
23 of far back. I just have trouble remembering it.

24 THE CHAIRMAN: You testified that you had no  
25 knowledge of this pending corporate announcement

WILL FRANK, 238. -- UNKNOWN COURT -- JULY 1-1931

1 relating to the franchise. Did it strike you,  
2 later that here, Mr. Helms and Mr. Linn both  
3 became executive officers of the organization, they  
4 both had close and long relationships with the  
5 top management of Four Seasons, as you did, and that  
6 one looking at their account, noticing a substantial  
7 purchase just prior to the corporate announcement,  
8 might raise some questions about the propriety  
9 of the transaction?  
10

11 MR. BAE: That might be a proper question  
12 for a compliance officer, but we are talking of a  
13 four-month lag. They became officers at the end of  
14 the summer. This is a transaction in April.

15 To piece together this kind of a transaction  
16 is to raise an inquiry --

17 THE CHAIRMAN: It is a matter of his own tes-  
18 timony that Mr. Helms and Mr. Linn were not un-  
19 acquainted with the top management of Four Seasons,  
20 where they could have potentially have obtained the  
21 information directly from Four Seasons rather than  
22 from any communication with Mr. Crimmins.

23 However, the timing of this transaction, where  
24 those individuals had close relationships with not  
25 only Mr. Crimmins but the top management of Four

26

2025 RELEASE UNDER E.O. 14176

Seasons, obviously, from the sake of appearance, might raise questions.

MR. PAB: I thought you were trying to connect the question to the end of the summer, when Linn and Holms became affiliated.

THE CHAIRMAN: I understand, Mr. Crimmins, you have no knowledge as to when these two gentlemen commenced their discussions with Four Seasons about joining this new franchise organization?

THE WITNESS: That's correct.

BY MR. PAB:

Q You met with Mr. Linn in New York City about the time these transactions were executed, didn't you? Haven't you at the British Basketball game?

A That's correct.

Q And you met for dinner at Mike Menuche's before that?

A Yes.

Q So this was probably the subject of some conversation between you?

A No.

THE CHAIRMAN: Why was Mr. Linn back in New York City?

1 the issues, as they presently exist at this posture  
2 of the matter, as to whether or not Walston did or  
3 did not instruct Mr. Crimmins to discontinue  
4 solicitation in light of the concession that the  
5 Walston firm was completely unaware of the full  
6 extent of Mr. Crimmins' relationships with the  
7 Four Seasons management. This is pretty clear in  
8 the record.

9  
10 THE CHAIRMAN: Are you saying it is irrelevant  
11 for the panel really to get into the issue as to  
12 whether that restriction -- which we have had tes-  
13 timony on was imposed in January -- was shortly  
14 thereafter rescinded or not rescinded?

15 MR. HARRP: I think it is quite foreign to  
16 the issue as it exists, in light of the fact that  
17 the firm was unaware of Mr. Crimmins' relationships,  
18 the full relationships with the Four Seasons manage-  
19 ment.

20 THE CHAIRMAN: I think it has been conceded  
21 by Mr. Crimmins, if you are talking about his dis-  
22 closure as to the purchase of the latter investment  
23 stock. It was some time before Walston became aware  
24 of it.

25 MR. HARRP: I think we are entitled as a matter of

PAUL FREEMAN, CSM - SENIOR'S SENIOR - 10000 10000

record. If so, it would show on the record.

Q There is nothing in the record. Apart from that, you have no recollection of doing so, is that correct?

MR. HART: I think the record speaks for itself, including the subsequent interview on January 20, 1975, because numerous opportunities were given to Mr. Grimmins during the course of this interview to explain just why he got these extremely liberal credit terms on the restricted stock purchases.

A I would like to explain my answer, if I may.

Q Please do.

A As I said, I don't recall telling Mr. Grimmins at that time, or subsequently, that these stock purchases were illegal or wrongful. As a matter of fact, I don't know whether this is part of your record or not, but we were concerned about a number of aspects of the purchases, and one of them was that it was possibly a Regulation "U" violation. I do recall we wrote, in a hypothetical way, to the Federal Reserve Board, in order to get some advice from them; and we were told -- and this must have been somewhat later -- that such a transaction might well be a violation. I say that because at least as far as the Regulation "U" aspects of it, I remember not being sure whether it was legal or not.

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RAY, JOHN W. (AKA) -- MEMPHIS SPEECH -- JUNE 7-1968

Q Are you talking of November 1969? You weren't sure whether it was a violation of Regulation "T"?

A That's right. I do recall, in addition to that, that Mr. Crimmins' testimony changed the complexion of the case in my mind tremendously and it then became much more serious of a matter in my mind.

In the normal course of events, having determined that this might very well lead to disciplinary proceedings, it would not be the habit of our office to start having a poliover with the possible respondent, to tell him our ideas at that time as to what was wrong. The normal procedure would be then to write a report and to get his comments on the report, and if we did feel at that point that there had been a violation of Exchange rules, it would be charged.

Although I was not with the case as it went along, it is my understanding that that is what was done, so that if I didn't call Mr. Crimmins at that time that I saw something wrong with these transactions, that would have been normal. Our conduct was not abnormal, not unusual.

Q Mr. Crimmins was subject to the jurisdiction of the American Stock Exchange, was he not?

A Yes.

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